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The International Debt Problem

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If the Difference in the Price Level Prevailing When Most of Debt Was Contracted, and the Price Level Now Were Taken into Consideration, There Would Be a Reduction of Billions. That Principle Has Been Applied in the Dawes Plan.

THE AMERICAN BANKERS ASSOCIATION JOURNAL has asked me to write an article on the question whether or not the various countries indebted to the United States on account of war loans will be able to settle these debts under existing circumstances. In answer to this request, I shall try to explain my views on the obligations of foreign governments to the United States Treasury, on the justness of the American claim that these debts should be paid, and on the financial and economic possibility of payment.

The financial interest of the United States government in this question is to have advances amounting to a sum of about ten and one-half billions of dollars repaid together with interest. Even for a rich country like the United States this is such a huge sum as to make airy talk of the cancelling of the whole claim unwarrantable. The United States has a right to insist upon the question of this indebtedness being treated seriously and with the same consideration as is usual in respect to other debts. There can be no doubt of the legal obligation of the foreign governments to pay the debts. The fact that most of the money has been advanced during the war as a help to nations engaged in the war on the same side as the United States itself cannot be taken as an excuse for refusing payment, or even as an argument that the United States government might reasonably be asked to cancel the debts. When, by advancing money, a country comes to the assistance of another country involved in a great struggle, its right to have these advances repaid cannot possibly be diminished by the fact that it extends its help to sending armies to the rescue of the other country. The justness of this view seems to me indisputable.

Financial Help for Future Wars

OF course, it is possible to look upon this question from quite another point of view. A friend of peace, looking out for means of making future wars impossible, may well in the present question take the position that it is very desirable that all the debtor nations should simply refuse to pay any debts incurred on account of the war. They would then not only destroy their own credit for war purposes, but probably also go a long way toward making any government advances to other governments engaged in a war impossible for the future. Doubtless such a destruction of international credit in the matter of all sorts of war advances would make wars much more difficult than they have been hitherto, and be a counteracting force against an unlimited extension of the battlefield. I repeat that in view of the great interest in preserving international peace and preventing wars, such a line of argument undoubtedly has a certain force. But this is, I assume, not the point of view from which the principal nations indebted to the United States would like to have the question of their indebtedness discussed. They wish to get rid of their burdens, or at least to see them restored to a minimum, without having their own reputation for financial solidity diminished thereby or definitely excluding themselves from the possibility of financial help in future wars. But such desires certainly do not deserve any support whatever.

It is necessary, therefore, that the whole problem should be examined as a purely financial problem, where the legitimacy of the claims of the United States are unconditionally acknowledged. Such an acknowledgment does not, of course, exclude the possibility of discussing the amount that can rightly be claimed and the economic conditions under which such claims are justi-

> ### Prices and Tariff
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> *PROMINENT among the economists of the world is Professor Gustav Cassel of the University of Stockholm, Sweden. In the accompanying article he discusses various considerations bearing on the settlement of international debts. There are two things in his article of special interest and importance.*
>
> *The first is his observation relative to the difference in the American price level now and the price level prevailing when most of the foreign debt was contracted.*
>
> *The other thing of special importance is the economist's view of the American tariff schedule, enacted at the close of the World War, and the possible effect a change in tariff would have on American agriculture.*

fied. Let us here first take these two questions into consideration.

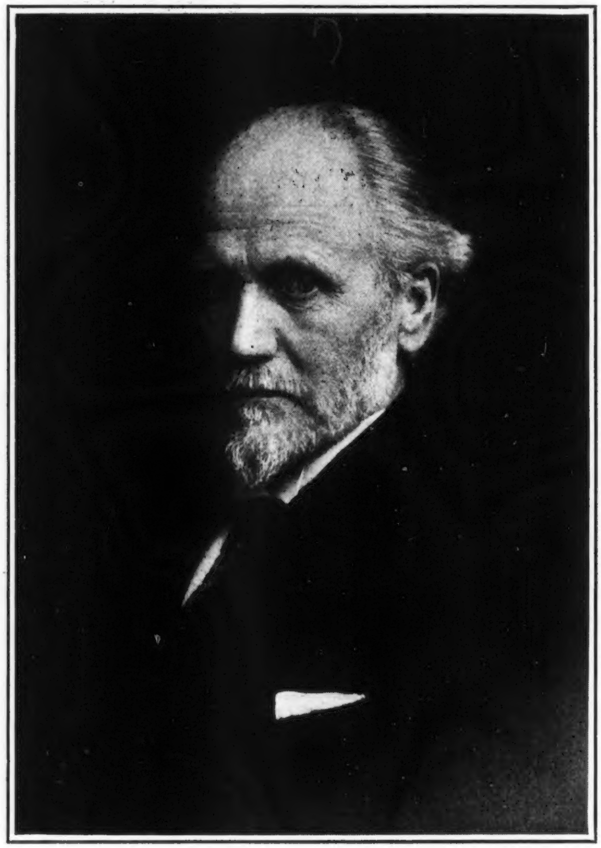
If Price Levels Were Considered

IT is a well-known fact that most of the advances of the United States government to other governments were made at a period when the general level of prices in America was much higher than it is now. This means that the value of the dollar in which the advances were made was much less than the present value of the dollar. Such alterations in the value of the unit in which a debt is incurred are generally not taken account of, the debtor being supposed to pay simply in the unit in which he has promised to pay. In normal times, when the value of the monetary unit can be supposed to be fairly invariable, this rule is generally possible to apply without any serious inconvenience, at least where periods of moderate length are concerned. But if it is applied under conditions where the monetary unit is known to have been subjected to violent alterations, it is bound to lead to an intolerable amount of real injustice. This is doubtless the case with regard to the foreign government indebtedness now under discussion. I have not the exact dates at hand on which the different obligations were incurred. But this is hardly necessary for my present purpose, as I only wish to explain the general principle on which the question should be handled. In the month of the Armistice, November, 1918, the wholesale price index of the Federal Reserve Board was 219. As measure of the present price level we can take the average level of 1924, which was 159. According to these figures the present dollar exceeds the old dollar in value in the proportion of 219 to 159. This means that the debt of the foreign governments ought to be reduced by 27.4 per cent. In the case of Great Britain, therefore, the debt ought to be reduced from $4,577,000,000 by about $1,250,000,000 to $3,327,000,000. In the case of France the principal of the debt would be reduced from $3,340,000,000 to about $2,425,000,000. The reductions, as we see, are substantial enough. They cannot be said unjustly to reduce the claims of the United States. But they would go a long way toward making the payments a financial possibility for the indebted governments.

Principle Applied in Dawes Plan

THE idea of an adjustment of such debts in accordance with alterations in the purchasing power of money is not so strange to the present state of mind of the financial world as it was before the war. Indeed, the principle has been applied in an international document of the very highest importance, viz., the Dawes plan. Germany's obligations are there fixed in terms of gold. But the Dawes plan found it necessary to introduce a correcting factor for compensation of possible future alterations in the value of gold. With regard to this question the committee says:

> "Gold is only a measure of value, and over a long period of years may be an uncertain and defective one. It is only in the case of really important changes that any action is necessary, and we therefore propose that a reduction or increase of the figures both as regards the standard and the supplementary payments should be made automatically in correspondence with changes in the general purchasing power of gold whenever, by the decision of an impartial authority, such changes amount to more than 10 per cent."



Professor Cassel, the distinguished Swedish economist, who suggests a way for settling the foreign debts on a new basis

What I now propose is that the same principle should be applied in fixing the amount of the debts of foreign governments to the United States. In my opinion it would be sufficient if the debts were definitely reduced to correspond with the present purchasing power of gold, and I do not consider it quite necessary to apply a correcting factor for the adjustment of future payments. Now that Great Britain has returned to the gold standard, we may hope for such cooperation between the monetary authorities of Great Britain and the United States as will keep the purchasing power of gold fairly constant for the future. This is extremely important for all sorts of indebtedness, and the world ought to be able to give the value of gold such a degree of stability that all sliding scales for the adjustment of debts, wages and other obligations could be avoided. In fact, these sliding scales only tend to counteract the stabilization of the purchasing power of money, which is the paramount common economic interest of humanity.

Says Tariff Has Increased It

IF the United States wishes to get paid by its debtors, it is a logical conclusion that it should be prepared to receive the goods and services of the debtor nations as payment without placing any undue hindrances in the way of such payment. It can hardly be contended that this natural condition has been fulfilled. For long after the time when the debts were incurred, the United States introduced a highly protectionist tariff, by which they try as far as possible to exclude European products of a high degree of manufacture from entering the United States. This is hardly fair toward the debtor countries. They can reasonably claim to be allowed to send their products in payment without having any extra duty imposed upon them, which doubtless increases the real burden of their debt. If I have a claim on a poor man who is not able to pay me in money, but can possibly afford to pay me in kind, a general sense of justice tells me that I am bound to take my debtor's chickens and greens or his artisan's work in payment, according to their general value in money. If I told this man that he is free to deliver these things, but that I was going to impose a special duty on them the moment they were brought into my house, I should rightly be considered as a hard and unjust person. The world's conscience is not so delicate with regard to international matters, and a nation is not generally looked upon as doing something particularly unfair when it is aggravating the burden of its foreign debtors by a substantial increase of its custom duties. Still, if we wish to judge the present problem of international indebtedness from the point of view of strict material justice, we cannot but come to the conclusion that the strengthening of American protection has unduly increased the burden of the debts of the foreign governments.

In my opinion, the best way for the United States to get out of this difficulty would be to revert to a more liberal tariff policy. I am inclined to think that the most careful examination of the case of free trade versus protection would, in the case of the United States, lead up to the conclusion that free trade would entail a distinct net gain for the country. This gain would consist in a concentration of the nation's productive powers upon objects for which they are best adapted. Free trade would particularly

strengthen the position of the farming classes, probably to the lasting social advantage of the whole people, and would on the whole bring about greater economic progress than is attainable under any system of protection. Thus the advantage which would accrue to other countries from American free trade would also doubtless be to the advantage of the United States. The increasing impossibility of America's selling and getting payment without buying should show the natural way for American tariff policy.

Should Consider Tariff Differential

HOWEVER, this is a question which is somewhat outside the problem here under discussion. The United States is of course free to form its tariff policy according to its own ideas of what is good economy. But if it chooses a highly protectionist policy, doubtless aggravating the burdens of the debtors, it ought to take this fact into consideration when it comes to a definite adjustment and fixation of the debts of foreign governments. For this purpose a reduction in the debts ought to take place as a compensation for the extra burden which the tariff involves. The exact calculation of the amount of reduction required is difficult, and perhaps even impossible. But it would certainly have to be a substantial one, and if the United States wishes to have an absolutely indisputable ground for its claims, it would probably be wise in offering such a reduction of their own accord.

If such reductions as I have now explained had been carried through, the United States would no longer have any need to hesitate in insisting upon payments, nor would the claims of the United States then go beyond the financial capacity of the majority of the debtor countries. It is of course a difficult task, and especially in such a short article as this, to examine the financial position of all the debtors here involved. But when one sees that such poor countries as Finland, Hungary and Lithuania have already arranged for settling their debts, and that even Poland recently has been able to do so, one has the impression that the same ought to be possible for most of the other countries involved, particularly after the substantial reduction of the claims here advocated.

In the case of Great Britain the payments are so large that they undoubtedly involve a very considerable sacrifice, particularly for a country which is burdened with an immense amount of unemployment. In this case, the justice of the demand for a reduction of the American tariff which would allow British laborers to work for the payment of Great Britain's debt to America, seems to be more than ever self-evident. The international balance of payment of Great Britain, however, is so good, that the service of the American debt does not require more than a part of the annual surplus of this balance.

American Tourists May Pay The French Debt

THE case of France is without doubt that which at present has the greatest interest both for the United States and for the world at large. The external balance of payment of France seems to be quite strong enough for the requirements of the American debt. The foreign trade of the country already gives a substantial surplus which is not often the case with the European countries. But, in addition, France has a large income from foreign visitors. The expenditure of the American visitors to France alone ought to go a long way toward covering the annual payment on account of the American debt. Indeed, it does not seem unreasonable if the French government debt to the United States were to be paid off by aid of the expenditure of rich Americans traveling in France.

The great difficulty in the case of France doubtless consists in the internal financial problem of taxing the French people sufficiently for creating a surplus available for payments to the United States. But even this problem can be solved. The military expenditure of France can obviously be very considerably reduced, and the enormous sums which are now squandered on an absolutely useless occupation of German territory could much better be employed for the payment of France's clear obligations.

The balancing of the French budget would without doubt be very much facilitated if the value of the French franc were to be stabilized. The experience of other countries has already shown what a powerful factor a stable currency is for the improvement of the economic situation of a country and for putting its finances on a sound basis. Particularly would the stabilization of the franc be a great help by putting an end to the flight of capital which is largely caused by lack of confidence in the French currency. After such a stabilization of the franc as would fix its value in the neighborhood of its present international exchange value and would restore the French currency to a gold basis, the financial position of France would in all probability prove to be quite strong enough to meet France's American indebtedness.

With good will and a sense of justice trained to penetrate to economic realities it would certainly not be impossible to solve the whole problem of foreign governments' indebtedness to the United States.

The Unsolved Mystery of the Russian Gold

ONE of the absorbing mysteries in the financial world is what became of the gold reserve of Russia. Despite the most diligent inquiries, there seems to be no satisfactory answer to this query.

While Russia's gold supply amounted to 1,695,000,000 roubles before the war, transfers of roubles to New York, London, Canada and other countries for war supplies had reduced this by 680,000,000 roubles. At the time of the Bolshevist revolution, it is reliably reported that Russia possessed 1,164,000,000 roubles. Shortly before the Czarist regime fell, the Treasury sent between 600,000,000 and 700,000,000 roubles to Kazan, but the remaining roubles fell into the hands of the Bolshevist leaders.

The gold that had been sent to Kazan fell into the hands of Admiral Koltchak, who had set up his government in Siberia, when he staged his successful offensive against Kazan. Admiral Koltchak is reported to have come into possession of 680,000,000 gold roubles by this victory. He promptly sent these gold treasures on to Omsk, the Siberian capital. Later the Admiral and his forces had need of credit to purchase supplies for his "White" armies, so, according to one of the survivors of his finance regime, about half of the gold was dispatched to Vladivostok. The gold was largely spent for military supplies and as guarantees of the loans by the Japanese and the Anglo-American group.

There is about $200,000,000 of the gold that Koltchak secured from Kazan that has never been accounted for. As practically all of the Admiral's military supplies were paid for through the Vladivostok credits, it is not believed that any considerable part could have been expended for these needs. In the autumn of 1918 the advance of the Bolshevists caused Koltchak to flee from Omsk. Before withdrawing, it is established that he loaded his golden treasure on a special train and dispatched it to the rear. About 125 miles away from Omsk the gold special struck another train and several of the cars were smashed. Most of the gold was gathered from the wreckage and reloaded. Shortly afterward the fleeing Koltchak army entered the region held by the Czechoslovak legion under the command of General Sirovoy. While the Czech general took possession of three of the five special trains that Koltchak employed, he left two trains to the fleeing Admiral—one for his own party and the other for the conveying of the gold. Shortly afterward Koltchak was executed.

What became of this gold has never been established definitely. It is claimed that the treasure fell into the hands of the Czechoslovaks and was dispatched to Kharbin. It is stated that Russian gold was so abundant among the Czechs that a special bank, known as the Legionaires bank, was started in Prague to take care of the troops' dealings. They insist that the legionaires were compelled to hand over all the gold they had to the Reds to save their lives and that thus the money got back to Moscow.

The Moderate Earnings of Banks

Profits of the Nine Thousand Member Banks of the Federal Reserve System for 1924 Were at the Rate of 8.04 Per cent of Invested Capital. Estimated All American Chartered Banks Had Net Profits of Around $500,000,000 for Past Year.

THE chartered banks of the United States, it is indicated by reports of the earnings of the Federal Reserve members banks, made net profits ranging from $500,000,000 to $567,000,000 during 1924. This represents an annual return of between 7.5 and 8.04 per cent on the capital, surplus and undivided profits of the nation's 29,000 banks.

Perhaps the most comprehensive survey of bank earnings available is that recently made by the Federal Reserve Board. The net profits of all member banks, numbering about 9600, amounted to $361,343,000—or just 8.04 per cent of their average capital investment for the year. The member banks made a better showing during the first half of year in their financial reports, as the net profits for the last six months amounted to only $170,268,000 and represented a yield of 7.5 per cent on their $4,537,435,000 of the capital devoted to their banking operations. The decline was due to the fact that the banks charged off the greater part of losses during the last half of the year.

The earnings of the Federal Reserve member banks afford, perhaps, the best cross-section of American banking. While only about 1500 state banks and trust companies are members of the System, all of the national banks, chartered in forty-eight states, are included in its returns. Banks that held Federal Reserve memberships at the close of 1924 had made nearly three-fourths of all loans outstanding and held more than two-thirds of bank investments. Thus, it may be safely assumed that the earnings of the Federal Reserve member banks were broadly representative.

Low Earnings in Agricultural Districts

WHILE the return for banks in most sections of the country was satisfactory, the institutions, serving the agricultural states which were sorely hit during the post-war depression, had only meager profits. The Federal Reserve Board reports that the member banks in the Minneapolis district had a profit during 1924 of only 2.19 per cent on their invested capital, while the member banks in the Kansas City district earned a profit of only 2.59 per cent. The Dallas district member banks, due largely to the better conditions caused by the high prices prevailing on cotton, made a marked improvement over the preceding year, jumping from 3.39 per cent for 1923 to 4.99 during 1924.

Due, in a measure at least, to the published reports of the cuttings of big melons by the great banks of New York and in the financial centers, there is a widespread popular notion that banks are huge money makers. The statement of earnings of the banks that are members of the Reserve System refutes this idea. Dividends of only $258,044,000 were paid out to stockholders in banks having an invested capital of $4,537,435,000. This is a dividend return of less than 6 per cent. Furthermore, the stockholder in subscribing for bank stock assumes a double liability, because, in event losses wipe out the capital, the stockholders may be called upon to put up an amount equal to the amount of the shares held to meet losses. The sum of $123,299,000 was added to the banks' surplus and undivided profits, however, giving this further protection to the depositors who intrusted their funds to these banks, and increasing the value of the bank shares.

While low interest rates prevailed during the greater part of the year, the Federal Reserve member banks had gross earnings that were $65,000,000 in excess of the earnings for 1923. This was due in a large measure to the profits that banks made through advances in the values of securities held for investment. Then, too, the earning assets of the bank were larger in proportion to the amount of invested capital. For every $100 in invested capital the amount of funds in use was $616, as against $603 for the preceding year.

There was a substantial increase in the volume of savings and time deposits during 1924. A large part of the gain in gross earnings was absorbed by mounting expenses, due to the larger payment of interest on these accounts. Indeed, out of an income of $6.46 for each $100 of loans and investments, $4.63 went to pay the banks' expenses. This left a net earning of $1.83, but the net losses sustained by the banks from bad loans and investments accounted for 52 cents, leaving a profit of $1.31 on each $100 of earning assets.

Heavy Losses Charged Off

AS is well known, there are losses in banking as well as profits. The Federal Reserve Board revealed that its 9600 member banks charged off net losses of $153,614,000 during the past year.

Banks in the Kansas City and Minneapolis districts charged off greater losses than during the bad year of 1923. The Federal Reserve member banks in the Kansas City district sustained losses amounting to $18,610,000, but realized enough on recoveries from assets previously marked off to lower their net losses to $14,719,000. The member banks in the Minneapolis district reported a net loss of $7,364,000 for the year.

The net losses of the member banks in the twelve reserve districts for 1924 and for 1925 were as follows:

District	1924	1923
Boston	$11,589,000	$10,618,000
New York	29,244,000	31,844,000
Philadelphia	4,074,000	6,207,000
Cleveland	10,526,000	11,859,000
Richmond	5,574,000	5,908,000
Atlanta	7,566,000	5,509,000
Chicago	21,103,000	23,512,000
St. Louis	19,595,000	6,119,000
Minneapolis	7,364,000	7,185,000
Kansas City	14,719,000	13,428,000
Dallas	8,751,000	11,046,000
San Francisco	13,499,000	16,585,000

In the Philadelphia district the losses charged off during the past two years were at the low rate of from 20 to 30 cents per $100 of earning assets. It ran as high as from $1.15 to $1.45 per $100 in the Kansas City and Dallas districts during the same period.

Dollar's Lower Hire

WHILE interest rates varied throughout the country, the average rate at which bank funds were utilized was approximately 5.48 per cent. This was lower than the approximate rate of 5.66 for 1923, when the general level of interest rates was higher.

The highest net earnings on a $100 unit of earning assets were not made in the districts where the rates of gross return were the highest, nor were the lowest rates of net profits recorded in those districts where the rates of gross returns were the lowest. The cost of doing business and the difference in the amounts of losses account for this condition. In the Philadelphia district the operating costs were as low as $4 per $100 of earning assets. In the Kansas City district the cost was about $5.80. The banks in the New York and Philadelphia districts managed to show the highest rates of net return on their capital investment, although their gross earnings on $100 of working assets were lower than those in any other district, except in the Boston district.

The rate of profit made by the member banks on their capital, surplus and undivided profit for 1924 was as shown in the following table:

	1924	1923
Boston	6.60	6.74
New York	10.41	9.50
Philadelphia	9.89	9.44
Cleveland	8.87	8.56
Richmond	7.21	7.40
Atlanta	6.91	7.90
Chicago	7.23	6.85
St. Louis	5.48	8.00
Minneapolis	2.19	1.88
Kansas City	2.59	2.62
Dallas	4.99	3.39
San Francisco	7.61	7.26

The banks paid on an average of 2 per cent in interest to all classes of depositors, but the rate on savings account was higher.

How Assets Were Invested

BANKERS frequently discuss what part of a bank's earning assets should be placed out in stocks, bonds and other investments, and what portion in loans and

(*Continued on page 60*)

His Specialty Is Doctoring Sick Currencies

By REUBEN A. LEWIS, JR.,

Dr. E. W. Kemmerer of Princeton University Whose Services as Financial Adviser to Nations Have Been Sought All Over the World. Now the Chilean Peso Has Been Acting Strangely and Chile Has Sent for Him to Give the Needed Treatment.

THERE is an American doctor whose specialty is run-down, ailing and prostrate monetary systems. His practice, during the past twenty-three years, has led to calls on five continents. Just now he has voyaged about 3000 miles to another end of the earth to tell one of the richest nations in South America just why its money pulse is beating so slowly and to prescribe a remedy for its puzzling financial ills.

A few months ago he was called on a case in South Africa. He had hardly finished a most important consultation in Europe—for a group of highly solicitous powers were gathered around the recuperating Germany wondering just what could be done to restore its anaemic mark to health. Less than a year had passed since he put the Republic of Colombia on its feet in the way of money.

Since money is the life blood of trade, it may be readily imagined just what a strong and regular pulse beat of currency means in the business of a nation. So when this doctor takes up a case, it means that millions of people are affected by his tonics and cures. For when a currency system of long standing years is reformed a new order comes. Prices and wages are expressed in the changed units of the new money. Debts contracted in the old are henceforth payable in the new. Savings, representing the effort of a life time, shrink or enlarge with the shift. Foreign trade must accustom itself to the new unit. Public credit is affected. The life of the nation must undergo a readjustment.

Gained Wide Eminence

IT would be hard to exaggerate the importance of this financial doctor's work. In all the world, there is perhaps no other man who has gained as wide an eminence in this distinctly limited field. Yet, building up run-down currency systems and discovering why out-worn monetary machines will not run is a mere sideline.

This doctor is Dr. Edwin Walter Kemmerer. He is professor of economics and finance at one of the great American universities—Princeton. In recent years he has actually given more of his time to the sideline than to his main work at Princeton but the university heads feel that they should do their bit in the field of public service by liberating Dr. Kemmerer from the class rooms so he may operate in the larger sphere where the soundness of academic theories may be demonstrated in practical application.

Gold in the Philippines

IT was in the Philippines that Dr. Kemmerer first plied his art in reforming foreign money systems. There he succeeded in setting up a monetary system, based on the gold standard, without a gold currency.

He was appointed as an expert adviser to the Philippine Commission in 1903, when William Howard Taft was governor general. The occupation of the Philippines had imposed the responsibility upon the United States of providing a currency system for the 7,000,000 Filipinos. After a few years of unsatisfactory experience with a makeshift arrangement wherein the commercial banks agreed to maintain a rate of exchange of two Mexican dollars for one gold American dollar, Congress, in 1903, passed the Philippine Coinage Act, providing for the establishment of a gold standard with a theoretical gold peso. It left to the Philippine Commission the working out of the details and the setting up of the proper administrative machinery for the inauguration and the maintenance of the new standard. Others were largely responsible for the features of the Congressional act, but it was left to Mr. Kemmerer—then just twenty-eight years old—to give expert counsel as to how the parity of 30,000,000 to 40,000,000 of pesos in the new silver coins could be maintained with gold and to adjust the currency supply to the demands of trade in such a way as to prevent sweeping fluctuations. The Philippines were on a gold exchange standard, where silver units were to be redeemable at a certain amount in gold.

Perhaps the outstanding feature of the system was the establishment of a separate trust fund, called the Gold Standard Fund. Part of the fund was held in New York and part in Manila. It was designed to keep the peso at a reasonably stable rate of exchange and to permit the settlement of trade balances in international trade without shipping gold. When there was too much money in circulation in the Philippines, the government gave would-be gold exporters a gold credit in New York and removed from circulation this excess amount of currency. When more money was needed for the purposes of trade in the Philippines, the New York agent would give American exporters, in exchange for United States currency, drafts to be cashed in Manila that thus would put this amount of money into circulation. In this way, exchange could be forced down or up as the situation demanded, without actual shipments of gold.

Within a little over a year and a half's time, the old currency was practically eliminated from circulation and the Philippines established on a gold-exchange basis.

The next move led Dr. Kemmerer to Egypt, via the Straits Settlements. The government was considering setting up an agricultural bank in the Philippines. Over in Egypt, the British had organized such a bank and it was thought that the Filipinos might profit from the experience in this country. So Kemmerer was appointed as a special commissioner to study the Egyptian bank. Later he submitted a report on its advisibility to the government.

En route, he stopped off at Singapore to investigate the currency situation in the Straits Settlements. Dr. Kemmerer was satisfied that the currency problem there might be solved by setting up a gold-exchange standard, similar to that put in force in the Philippines, but was told by the governor that the government had no intention of adopting this plan. However, this later was put into effect by the Straits Settlements. He devised and established in the Philippines the Postal Savings System, many features of which were found in the newer system that the United States adopted.

Helped Mexico

IT was not until 1917 that Dr. Kemmerer was called upon by a foreign nation to aid it in building up a badly working currency system.

The Carranza government in Mexico sought his counsel for it was during the war and Mexico was having her troubles. The United States had an embargo on gold. When the Mexican mines shipped gold ores into this country for refining, the United States would not let the gold be shipped back. The Mexican silver coins had such a large bullion content that this hard money was fast disappearing from circulation and the country was sorely distressed. Dr. Kemmerer drew up plans for the reorganization of the monetary and banking system, recommending among other steps that all of the silver coins

should be recoined with lower bullion content; that the fineness and weight of the coinage should be cut down and that a qualified gold exchange system be established. Some of the suggested changes were adopted but the upheavals in Mexico and the unsettled conditions prevailing due to the war made a full realization of the plans impossible.

The little Republic of Guatemala called for his services in 1919, in those days when the price of coffee was ruling high and conditions were more prosperous than they had been in years. Dr. Kemmerer framed a plan to replace the highly fluctuating paper currency with a gold-exchange system of money. To get away from the evils of inconvertible money, where the volume of bank notes was fixed by the arbitrary decisions of those who controlled the note issue, it was proposed that a National Bank should be set up with foreign interests supplying the bulk of the capital and directing its operation. A new unit of currency—the estrada—was proposed to replace the peso and provisions were made for the retirement of the fiduciary money. However, the governing body of the little republic declined to approve the reform proposed, which was to be made possible for the extension of a considerable loan by American bankers, and the movement failed.

Again in June, 1923, Dr. Kemmerer voyaged to Guatemala to advise with the government on its currency and banking problems. But thus far, the situation remains more or less unchanged and the Central American republic has not undertaken a reform of its monetary system.

Frequently during the past few years countries in Latin America have sought the counsel of Dr. Kemmerer on various matters affecting their finances, but the public has not known of the work.

It was in the Republic of Colombia that Dr. Kemmerer achieved his most notable success, for, within the span of seven months, the South American country had a complete reorganization of its currency, banking and fiscal systems. The new order came into effect with dramatic suddenness, for, before the new bank of issue and rediscount was due to start operations, the largest private bank in the country collapsed and a run, starting on the other banks, grew into a full-blown panic. Facing this critical situation, the American experts, moving in feverish haste, set up the new bank, introduced the new currency and saved the day in the South American country.

Shortly after the United States paid Panama the first $5,000,000 installment of the $25,000,000 due as indemnity for taking the strip of land where the Panama Canal was dug, Dr. Kemmerer and four other experts went to Colombia to assist in modernizing its finances. Secretary of State Hughes had recommended this doctor to direct the job. Within three months, the Americans presented to a special session of the Colombian Congress a group of bills, providing for the establishment of the Bank of the Republic and reforming the currency, a revision of the revenue laws, a new national budget law, a new general banking law and a comprehensive plan for a reorganization of the nation's accounting system. Five other projects were later submitted. The program went through without a real hitch so by the summer of 1923, Colombia had a $10,000,000 central bank, a currency based on the gold standard, a new general banking law conforming to the best practice in the United States and Europe, with a system of supervision and control, modeled closely on the New York state law.

Dr. Edwin Walter Kemmerer

Just three days after the law providing for the establishment of the Bank of the Republic was passed, the panic began. The government was not prepared for such a trial, for it was contemplated that the work of organizing the bank would take about six months.

With an angry mob of depositors struggling at the doors of Bogota's banks and a real financial panic in full swing, it was realized that nothing less than a miraculous stroke would save the day. Amid the tension, here, in Dr. Kemmerer's words, is how the situation was met:

"Friday, July 20, was Colombia's Independence Day. Thursday, July 19, was to be the last day of the Special Session of Congress. Wednesday evening the President issued a proclamation declaring Thursday and Saturday national civic holidays in honor of the public services rendered by the Special Session of Congress. This gave four days' breathing spell, during which the banks would be closed. The President's proclamation also announced that on Monday morning, July 23, the Bank of the Republic would open for business with ample funds to rediscount the liquid paper of all solvent member banks. Wednesday night and Thursday subscriptions were taken to the stock of the Bank of the Republic and the board of directors was elected.

"During those days the statutes and by-laws of the Bank of the Republic were formulated and adopted, and all of the legal preliminaries for the opening of the bank were arranged. By means of several aeroplanes and special trains, $3,000,000 of unissued gold certificates held in the government mint in Medellin, a distance from Bogota requiring ordinarily about six days' journey, were brought to Bogota, and surcharged 'Provisional Notes of the Bank of the Republic.' The bank received over a half million dollars of stock subscriptions in gold from subscribing member banks in Bogota, and $3,000,000 in gold for the government's subscription.

"The government's payment was made through a sale, made under orders cabled from Bogota to the Federal Reserve Bank in New York to sell for the account of the Colombian Government, $3,000,000 of United States Certificates of Indebtedness, which the Federal Reserve Bank was holding for the Colombian Government, and to place part of the proceeds of these certificates in certain banks in New York, and to hold the balance as ear-marked gold in the Federal Reserve Bank's vault in New York, which were treated constructively as vaults of the Bank of the Republic. Preliminary arrangements were made Sunday for nearly $2,000,000 of rediscounts for the Colombian banks, and these rediscounts were put through early Monday morning.

"Within a few minutes after the bank opened for business Monday, July 23, it had notes outstanding of upwards of $2,000,000, and a gold reserve of something like 170 per cent. It offered at once to redeem its notes on demand in drafts on New York at a rate of exchange representing the gold export point for Colombia,

and it redeemed notes in small quantities on demand in gold coin. Not only did it redeem its own notes in this way, but it also redeemed other paper money of the government on the same terms.

"The panic immediately stopped, confidence was restored and business again returned to normal."

The new laws have been in effect more than a year now and are working out well.

Expert to Dawes Committee

RETURNING to Princeton in October, there was a short breathing spell of less than three months before the call came to embark for another continent where the biggest economic problem in the world—the reparations problem—was to be grappled with.

Dr. Kemmerer was drafted by General Dawes and Owen D. Young to service as expert adviser to the Dawes Committee, for it was realized that before Germany could hope to pay generous reparations, the nation would have to have a stable currency and a new central bank. As monetary reform was his specialty, it was hardly more than natural that the American commissioners should seek his counsel.

The part that Dr. Kemmerer played in the framing of the Dawes plan has never come to light fully. He will not discuss the matter beyond stating that the work of drafting the sections in the plan covering the stabilization of the German currency, the reorganization of the Reichsbank and the provisions calling for limited supervision of the Gold Bank by the General Board was intrusted to him.

It is rather significant, however, that the gold exchange standard, the principle that Dr. Kemmerer stuck to in the old Philippine days, was adopted for the new German currency scheme. In his book on *The Dawes Plan in the Making,* Rufus C. Dawes reproduces two discussions, written by Dr. Kemmerer considering the effect of reparations payments on currency stability. There is the characteristic Kemmerer ring in the discussions which recount the natural economic forces that will come into play to protect Germany from an undue drain of gold. The means by which the Reparations Commission might withdraw funds accumulating in the New Gold Bank without danger of breakdown to the German gold standard were covered in another.

So in this great readjustment, it fell to Dr. Kemmerer to take a prominent—if somewhat cloistered part.

Advising South Africa to Tie Up with Gold

IT is the Union of South Africa that won the reputation among nations of being a forerunner in the recent widespread return movement to the gold standard. Dr. Kemmerer took a major rôle in the shaping of this decision.

Since the close of the war it had been his opinion that the nations of the world would find it highly desirable to return to this time-revered basis. He was venturesome enough to predict that, once the start was made, there would be a rather general rush to the gold standard. South Africa was sorely beset because her monetary unit, bearing the name of a pound, had for several years, both in gold value and in purchasing power, been a different pound from the pound sterling. It did not respond to the ups and downs of the British pound, and there was much confusion in trade, although the African pound itself was above gold parity.

South Africa wanted to get away from money instability. So the problem narrowed down to the question of whether it would tie up definitely with sterling, hoping that sterling would go on the gold basis soon, but prepared to follow sterling wherever it might go, or whether it should decide to tie up definitely with gold. The world's largest gold producing nation decided to call in two sage neutrals to give their counsel, inviting Dr. Kemmerer and Dr. Gerard Vissering, president of the Netherlands Bank, to advise whether the Union should take the bold step of breaking with sterling.

"Clinch gold parity while it is here"—this was the advice that the two experts gave last January—five months before Great Britain announced the return to a gold standard. Before Dr. Kemmerer departed for home, he had the satisfaction of seeing the Union accepting this counsel. Gold coins were in circulation, and plans were being made to put other reforms suggested into force.

The Chilean Puzzle

IT was not long before Dr. Kemmerer was appealed to by the Republic of Chile to solve the puzzle of the Chilean peso's plunge—one of the knottiest problems in all the realm of money.

In the face of a continuous favorable balance of trade, with exports running well above those of the most prosperous years and her industries flourishing, Chile's monetary unit has declined alarmingly. In March, 1919, the paper peso—with a par value of 36.5 cents—stood at 29.60. A headlong dive had brought it down to 9.77 cents in March, 1924. It has improved slightly since then, but it is worth less than half of what it was in June, 1919. The leading economists and financiers of Chile insist that this is a baffling case, where "the drop is not justified by the facts." Indeed, the gold reserve of Chile is large enough to give the outstanding paper pesos a metallic value that is higher than their quoted market rates! Little wonder that the South American country wants the experts to tell it how to keep the peso stable and to stop the uncertainty in foreign trade.

That Chile needs a monetary reform is self-evident. In the first place, she has an inconvertible paper currency that is made up of three varieties of fiscal bills and treasury notes. It is inelastic. A good part of the fiscal bills represents advance to nitrate producers.

The nitrate industry is the country's foremost source of income. The standard instrument for the payment of Chilean exports is a 90-day banker's or merchant's sight draft on London, and the value of the local currency depends almost wholly upon the supply and demand of drafts on foreign countries. So, naturally, there has been widespread gambling in exchange.

Just how much the prosperity of Chile is tied to nitrate may be realized when it is shown that the exports of this industry amount to nearly 80 per cent of the outgoing foreign trade, and export taxes on nitrates provide more than half of the government's income. So when the nitrate industry gets depressed, Chile is sick, indeed.

Chile doubtless recognizes this, for when Dr. Kemmerer sailed for Valparaiso in June he carried with him a corps of experts prepared to revise the tax system so that Chile might place less reliance upon nitrate as a revenue producer; give Chile a budget law so that she would have to live within her income; reorganize the customs administration to assure the collection of duties on goods imported into the country; modernize the accounting system so the statistics will reflect the true condition of the government and provide the desired checks and balances.

The most important part of the new scheme, currency reform and the establishment of a central bank, modeled along the lines of the Federal Reserve Bank, will fall to him.

The mission goes as confidential advisers, so naturally Dr. Kemmerer would not discuss what he planned to do. However, it is a foregone conclusion that he will urge the end of Chile's long-standing regime of inconvertible money and the placing of the peso on a gold-exchange or a gold basis.

Just three months are to be allotted for the completion of the mission's work, but, fortunately, Dr. Kemmerer will not have to spend any time going over the groundwork. While he doubtless learned much about the money systems of South America during his seven months' experience in Colombia last year, the continent, with its ten different currencies, proved so alluring a few years ago that Dr. Kemmerer, in the capacity of a trade commissioner and on his own hook, traveled all over it, visiting all countries except Venezuela and Ecuador.

Why Money Systems Fail to Work

THROUGH his varied experience, Dr. Kemmerer has come to know what will make money systems work—and what makes them fail to work.

In Latin America he has found that the trouble is almost always traceable to the pressure of governments on the central banks, causing them to increase the issuance of currency to meet the costs of government; for it is easier to print money than it is to collect taxes. Such a course leads to inflation, the money unit drops in value, interest rates rise and the exchange fluctuates making foreign trade more difficult.

It might be supposed that Dr. Kemmerer, strong in his advocacy of a gold basis for currency, thinks the gold standard cannot be improved upon. In reality, he thinks that gold is far from the ideal standard. Indeed, he thinks it is ridiculous to use a weight of gold as a measure of value—but, in this imperfect world and in view of all conditions, he regards this imperfect standard as the best that can be had. The ridiculous part of it is this: When one wants to

measure distance, a unit of length is used; when a liquid is measured, a unit of content is used; but when we come to measure the value of money, a unit of *weight* of a metal not *value* is employed. The standard of value in money, unlike other fixed units, varies from time to time. This makes gold an imperfect standard, but the best that the world can afford at this time.

An ideal standard, Dr. Kemmerer foresees, will be worked out sometime in the future, but it is far off. He believes that something along the line of the Fisher index-dollar will be developed, for money is worth what it will buy, and the best test of the value of money is to be found in index price numbers, but he is frank enough to admit that this ideal money will not be seen in this generation, the next or for several others.

Gold Standard Attainable

IT is not such a difficult thing for a nation to get on a gold basis, he points out. All that is necessary for a country to do this is to maintain its monetary unit at a parity with gold in a free exchange market. It does not have to have gold in circulation.

His view is that a country needs a certain amount of money for the effecting of its exchanges at a price level which is in equilibrium with the price levels of competing countries. If a country has less money than is needed for that purpose, the law of supply and demand will operate to depress prices below the price levels of nearby countries and, perhaps, temporarily to raise the short-time interest rates. Since money is more valuable in a selected country than, say, in the United States, exchange rates on New York will fall and gold will flow from America until an equilibrium in the price levels is again reached. On the other hand, if too much money is pumped into circulation, if there is an undue expansion of bank credit or a decline in business, money becomes cheap—the law of supply and demand operates to increase bank reserves, forces up the prices of sensitive commodities and perhaps temporarily depresses the short-time interest rates with the results that exchange rates rise, turning against the country, and the excess money seeks an outlet in exportation.

To permit this exportation, fiduciary coins (silver and fractional coins) must be readily convertible into gold. This is the primary purpose of a gold standard reserve, in his judgment. One of the outstanding Kemmerer ideas on currency is that the reserve must be made to work. The fund must be large enough to give the nation's business all the money that it needs at the busiest season, and to absorb this slack during the dull period. Of course, the bank note circulation of the central bank must provide an elastic currency, backed by a reserve adequate at all times to redeem its notes.

Why Gold Leaves

THE reason that gold leaves any gold standard country in undue quantities is not by newly created demands from abroad—but by being pushed out by paper money and deposit currency inflation abroad, he observes.

Gold is just like any other commodity, he reasons, and seeks the highest market. Whenever a country inflates its currency and circulating credit, it makes its money redundant and cheap, which, therefore, seeks the better market abroad. The outflow of currency takes the form of gold exports, since the country's paper money cannot be used abroad, and its silver coinage, if melted down, would not be worth as much as its face value in gold. As gold specie goes out, the currency contracts and money becomes scarce as the bank reserves decline, loans are curtailed and prices tend downward, commodity imports are retarded and commodity exports are stimulated as exchange rates go up. This change causes gold to stop going out, because it has become more valuable at home than it is abroad.

But if the country refuses to let these restricting influences operate and keeps on pumping more money into circulation and expanding its deposit credits through excessive loans to take the place of the gold going out, the drain of gold will continue until the gold is all gone, and the gold standard is broken down. The rapid depletion of the country's gold reserves under such circumstances will lead to the weakening of public confidence in the currency, and this will lead to inevitable runs on the gold reserves.

Under ordinary circumstances, Dr. Kemmerer maintains, there is no reason to become alarmed because there is an outflow of gold, for this is merely proof that the supply of money is too large and the excess is being drained off by gold following its characteristic of seeking the highest bidder.

Community Trust Idea Makes Headway

THE community trust idea of substituting contemporary wisdom for forethought in charities is making headway in the United States.

There are now fifty-five Community Trusts or Foundations throughout the country and twenty-one are in the process of formation, according to the Trust Company Division of the American Bankers Association. Seven of the trusts now have funds in excess of one million dollars each to use in their work, while thirty-nine trusts have received gifts in cash, under wills, or through living trusts. Eighteen of the trusts are distributing income, while in twenty-two cities committees on distribution have been appointed.

The trusts and foundations, where the amount of gifts has been announced, are:

The Cleveland Foundation.......Est.	$100,000,000
Permanent Charity Fund (Boston)....	4,384,128
New York Community Trust.........	3,525,000
The Indianapolis Foundation.........	2,525,000
Chicago Community Trust...........	2,500,000
The Buffalo Foundation.............	1,770,000
Los Angeles Community Foundation..	1,000,000
The Asheville (N. C.) Foundation....	500,000
Louisville Foundation	750,000
Williamsport (Pa.) Community Trust.	315,000
The Dayton (Ohio) Foundation......	260,000
Maine Charity Foundation (Portland)	315,000
The Youngstown (Ohio) Foundation..	250,000
The Minneapolis Foundation.........	247,000
Winston-Salem (N. C.) Foundation...	200,000
Permanent Community Trust Fund (Tulsa, Okla.)	125,000
Detroit Community Trust............	100,000
The Milwaukee Foundation...........	75,000
Fort Wayne (Ind.) Foundation.......	25,000

Six other cities have reported gifts ranging from $13,000 down to $1,000, while a number of other foundations have large funds but have not revealed the total amount.

The ideal program for this movement, according to Frank J. Parsons, chairman of the Committee on Community Trusts, is "to do the thing no other existing body can do, or as well." "It has seemed the part of wisdom to lay down as an essential policy, the dictum that no elaborate machinery shall be built up, but that as far as possible existing agencies shall be utilized and temporary groups formed for the putting into effect of specific programs," he states.

While the community trusts have accepted designated gifts, which provide for the turning over to some specific charity of income or principal until such time as the then committee on distribution may determine that the income should be diverted to some other closely related purpose, he states there is no question but that the greatest good to the community will eventually grow out of the undesignated gift.

It is his belief that it is better for a group of banks and trust companies—rather than a single bank—to act as trustee, as this course will prove wiser and productive of larger results. "Experience has indicated clearly that the greatest progress has taken place in the trusts which employ a high grade, full-time paid director," he adds.

As an indication of the type of work the community trusts are doing, an outline of their activities shows a wide variety. The Boston Permanent Charity Fund is disbursing the largest fund. It has made appropriations to 160 different Boston charitable organizations, chiefly hospitals. The Buffalo Foundation is making local studies of child caring agencies and studies of general local activities. Three scholarship funds have been established.

The Chicago Community Trust is making criminal surveys, surveys of social welfare and on the care of handicapped ex-service men. A survey of higher education in Cleveland is being made by the Cleveland Foundation with the idea of uniting Case School and Western Reserve University into one great university. The James Couzens fund for the physically handicapped is being disbursed by the Detroit Community Trust, while the Indianapolis Foundation is maintaining a nursing home for crippled children and a free employment bureau. The Milwaukee Foundation is assisting in providing hospital facilities for non-paying patients.

The New York Community Trust is maintaining through the Frieda Schiff Warburg trust about seventeen nurses of the Henry Street Settlement. It is making prize awards in New York public schools and co-operating in having an art exhibit by Viennese children shown in some thirty cities.

How Is the Dawes Plan Working?

By ROBERT CROZIER LONG

Germany Well Able to Raise Sums Necessary to Meet Reparations Payments. She Has Even Reduced Her Income Tax, But the Problem of Transferring These Payments Abroad Is Not Cleared Up. Thus Far the Plan Is a Success.

THE Dawes Plan will soon come to the first anniversary of its birth. Although first conceived in the winter of 1923-24, and although its accounts began only in the following fall, its real birthday was in August, 1924, when an unwilling yet overawed Reichstag sanctioned the necessary constitutional amendment. In view of the fact that the originally planned reparations settlement was to take thirty years, and that the present plan may easily take as long, it is as dangerous to forecast its future as to forecast the life history of an infant. But there are certain physical and psychical characteristics of even the youngest babe which indicate its future tendencies, and equally in the brief history of the Dawes Plan are features which justify one in pronouncing a qualified, temporary judgment.

The judgment is favorable. It is favorable in the sense that an infant's prospects are favorable if its first year passes without revealing any abnormal weaknesses. The mere fact of survival through the first crisis of life is a fact which justifies hope.

But here from the first an important discrimination (which applies to the plan and not to the child) is necessary. The discrimination was in the minds of the Dawes Committee when it drafted the plan, and its absence from the minds of earlier ally negotiators was largely responsible for the first failures. As the committee pointed out, it is one thing to collect reparations money from the German nation internally, and another thing to convert this money into foreign currency payments.

An Internal and an External Question

IN this matter the question whether the reparations payments be made in cash or in kind is of no importance. Ultimately, all reparations, insofar as they are not financed out of foreign loans, must be made in the form of exported goods, or deliveries in kind. Germany, that is, must not only raise at home the amount of the annual liabilities, but must also create an active foreign trade balance. If she does that, her surplus of foreign trade receipts over foreign trade liabilities will provide money for payment of the reparations annuities without risking the depreciation of her newly stabilized reichsmark.

The question "How is the Dawes Plan working out?" resolves itself therefore into two components:

Has Germany so far shown that she will be able to raise sufficient money to cover the progressively increasing annual installments; and

Is Germany's foreign trade balance such as to justify the belief that she can transfer the money to abroad?

The questions are an internal question, and an external or international question which involves primarily Germany's commercial relations with the outside world.

The internal question necessarily comes first, for without its solution the external question—transfers to abroad—cannot possibly be solved.

Put summarily, the internal question is whether Germany has so far shown that she can raise sums annually varying from 1,000,000,000 to 2,500,000,000 gold marks during the first five reparations years. With the exception of a foreign loan, which provides four-fifths of the first year's millions, all this money must be raised within Germany herself. The following shows the distribution of the burden:

Source	1st Year	2nd Year	3rd Year	4th Year	5th Year
		In Millions	of Gold Marks		
International Loan	800	——	——	——	——
Budget Contribution	——	——	110	500	1250
Railroad Bonds	200	595	550	660	660
Traffic Tax	——	——	290	290	290
Sale of Railroad Shares	——	500	——	——	——
Industrial Bonds	——	125	250	300	300
Totals	1000	1220	1200	1750	2500

The schedule contains five sources of internal receipts. The sale of railroad shares in the reparations year, 1925-26, is, however, a non-recurring source; and the traffic tax, as will later be shown, is certain to yield the standard 290,000,000 when the time comes. The real questions which have been in doubt, the questions which were entirely obscure when the Dawes Plan was framed, are the budget contribution, the interest on the railroads bonds, and the interest on the industrial bonds.

The Budget

THIS is the most important in its dimensions (as soon as the standard year, 1928-29, is reached), and the most complex. In a sense it comprehends the other two questions; for it is almost certain that if economical progress is so speedy as to yield the necessary budget surplus, the required yield from the railroad and industrial bonds will be obtained.

The budget results have so far been unexpectedly good. The first post-war financial year which has elapsed under conditions of stable currency terminated on March 31, 1925. Not only was the whole estimated revenue received, but also a sum so much larger that the maximum budget contribution of 1,250,000,000 marks, which is not payable until the fifth reparations year, could have been covered in the first year. This was a brilliant success, because the budget submitted for the financial year, 1924-25, assumed that a considerable deficit would have to be met.

According to the treasury return, which shows actual receipts and expenditure without regard to whether they belong properly to the year or whether they are exceptional, non-recurring, or extraordinary, the Republic had a surplus of nearly 660,000,000 marks. The financial year runs from April to March, and the account for April, 1924, to March, 1925, is:

Receipts	Gold Marks
From Taxation	7,102,644,488
From Other Sources	474,503,390
Total	7,577,147,878

One Year

THERE is almost a year's experience by which to judge the soundness of the Dawes Plan.

If the date of its sanction by the Reichstag is taken as the actual beginning of the plan, then the anniversary occurs in August and at present we have nearly a year's experience from which to judge its effectiveness.

Is it working? Will it work in the future? are questions in which the whole business world is concerned.

In the accompanying article Robert Crozier Long, writing from Berlin, gives a very interesting and valuable review of the operation of the plan thus far. Mr. Long has been admirably successful in reducing a highly technical subject to easily read and easily understood terms.

Expenditure	
General Administration	3,828,258,769
Subventions to States and Municipalities	2,629,259,890
Special Reparations Liabilities	459,884,117
Total	6,917,402,776
Surplus	659,745,102

This is the favorable account which made a considerable stir when first cabled to abroad. In reality it shows only a fraction of the real surplus; and this real surplus is so far known only approximately, because full expenditure accounts are not yet available. The brilliant success of 1924-25 first becomes clear from an examination of the taxation yields in the light of the estimated yields. The government got in over 2,000,000,000 marks more in taxes than appeared in the estimates. The following is the surprising summary of anticipations and achievements:

Estimated	Received
Goldmarks	
5,243,747,000	7,311,748,000

With two exceptions (the sugar and capital transactions taxes) every tax of importance yielded more than was estimated. Some important taxes yielded more than twice the estimated sum:

	Estimated (In Millions of Goldmarks)	Received
Income Tax	1344	2210
Corporation Income Tax	144	314
Property Tax	376	499
Sales Tax	1260	1974
Railroad Transport Tax	230	313
Customs	160	357
Tobacco	360	513
Beer	126	196
Spirits Monoply	140	141

The Republic's Share

A BETTER record than this cannot be imagined. The 2,000,000,000, which was the mere surplus, equals two-thirds of the whole average pre-war revenue of 3,000,000,000. Not all of the surplus however remained to the Republic. Its share, after paying to the states and municipalities their proportions, was 1,185,000,000. After providing for the 348,000,000 estimated deficit, the Finance Ministry was able to clear off 1,240,000,000 of temporary non-budget liabilities, and yet to have 334,000,000 in hand. It was able to pay 577,000,000 compensation to firms which made enforced deliveries during the Ruhr struggle; 236,000,000 towards redemption of debt, and 527,000,000 as compensation to Prussia and other states for their losses under the Peace Treaty and to certain individual sufferers.

The financial year 1924-25 was not a specially good business year. It was a year of recovery, but it witnessed an industrial crisis in the early summer, and serious depression in the following winter. Business was still suffering from the aftermaths of the great inflation. That being so, a future normal development of industry and trade—not to speak of a boom—promises continuing surpluses.

The financial year 1925-26 began even more brilliantly than the financial year 1924-25 ended. The budget for 1925-26 was drafted at a time when the results of 1924-25 could not be foreseen; and, being without data, the Finance Ministry adopted in its revenue estimates with practically no change the estimates of the preceding year, estimating the whole revenue, that is, at 5,239,700,000 marks. That is an average of 436,000,000 marks per month. The actual receipts in April, which is the first month of the new financial year, were 653,000,000. Should the budget continue in this way for the whole twelve months, the 2,000,000,000 surplus yield of taxes will not only be repeated but it will be surpassed and the realized surplus will be 2,604,000,000. In this case, again allowing for the increased subventions to states and municipalities, the republic will have in hand a sum well exceeding the 1,250,000,000 marks which the Dawes Committee estimated could not be squeezed out of the budget until at soonest 1928-29.

Cut Down the Income Tax

THE result may be even better, for important economies are being made. In 1924-25 there was cut out of the expenditure estimates by judicious methods of saving 548,000,000. The result of this system is that Germany has of late been one of the few countries in Europe which could systematically reduce taxation. The income tax on small incomes has been cut down. A new plan cutting it further down, and reducing its yield by 500,000,000 marks, has been submitted by Finance Minister von Schlieben to the Reichstag. The important turnover tax, which is collected on everything sold, has been cut from 2½ to 1½ per cent. The tax on increment of wealth has been abolished. The taxes on capital issues, on securities transfers, and on bills of exchange have been reduced, in some cases by 50 per cent. The cabinet, for special reasons, proposes an increase in the beer and tobacco taxes, but this plan is opposed in the Reichstag on the ground that the finances are already sufficiently good. The next twelve months will see an enormously increased yield from customs, under a pending bill which increases duties by between 20 and 800 per cent. Unless imports fall in quantity to half, which is highly unlikely, customs will soon be bringing in double the present yield.

There are minor doubtful features of German finance which must be here ignored, but they are offset by numerous minor favorable features which have also been ignored. But there is little doubt that the first small budget contribution of 110,000,000, which is not due until the reparations year 1926-27, will easily be paid, and that the later much larger sums will also be raised. This conclusion arises from the fact that the present state-financial prosperity is no accident, but is due to enduring factors. First, it is now admitted that the post-war wealth of Germany has been much underestimated. Whereas Professor Keynes estimated the post-war national income at only 20,000,000,000 gold marks, while the highest other estimate, that of an American trust company, was 29,500,000,000, the Berlin Chamber of Industry and Commerce puts the figure, on basis of an elaborate inquiry, at 35,000,000,000. Secondly, economic recovery has of late been much more rapid than even optimists expected. A prosperity index based both on capital and income which has been compiled by the Frankfurt statistician Elsas on the basis of 100 in 1913 puts the figure for February, 1924, at only 56 but the figure for March, 1925, at 76¼. Thirdly, expenditure is abnormally low as a result of reduction of armaments charges and of the practical disappearance of debt interest charges. In 1924-25 Federal expenditure proper, after deducting subventions to states and municipalities, was only 4,300,000,000 gold marks, which is far less than before the war. The expenditure of Great Britain works out at nearly 16,000,000,000 gold marks, or four times as much.

Hardly any doubt exists that German budget surpluses in the next few years will yield the stipulated contributions toward the Dawes Plan annuities.

The Railroad Bonds

THE railroad traffic tax, as stated, will certainly yield the 290,000,000 a year, which first fall due in the reparations year, 1926-27. The year 1924-25 was a mediocre railroad period, the coal and other heavy carrying branches being dull, but the tax yielded 319,000,000, or well over the stipulated sum. What of the railroad bonds? The first answer is that on March 1, 1925, the new railroad corporation promptly paid the initial 100,000,000 gold marks, that is the half year's interest due on that date, to the Railroads' Trustee for the Agent for Reparations.

This was a notable achievement, because in all post-war years before the stabilization of the currency the railroads worked with enormous deficits. The boldest of all the Dawes Committee's assumptions was that the railroads could be immediately reconverted into a profit-earning undertaking. The account of working so far shows that General Dawes and his colleagues were fully justified in their, as it seemed, precipitate optimism. The first business year of the new railroad corporation began on October 1, 1924. It began under hampering circumstances because not until November 15 did the corporation get back the ownership of the roads in occupied territory managed by the Franco-Belgian Regie; and it got these back in a very bad and hopelessly disorganized condition. The accounts for the first half year, terminating March 31, 1925, show a surplus which, even after allowing for considerable extraordinary expenditure, much more than covered the interest on the bonds for the same half year:

Receipts:	Millions of Goldmarks
Passenger Traffic	554
Freight Traffic	1342
Other receipts	132
Total	2028
Expenditure	1746
Net Profits	282
Extraordinary Expenditure	142
Surplus	140

On the receipts side these figures are almost uncannily close to the estimated receipts. On expenditure side they are somewhat above the estimated. The current half-year, April to September, should show much better figures. On the receipts side is the factor of much improved trade. Industry is better occupied than at any time since the first weeks of 1923, though the coal trade is still depressed. On the expenditure side the wages bill is declining. Wages themselves are slowly rising, but the staff is being rapidly reduced. In March alone it was reduced by 25,500 persons. Railroad traffic is increasing, whereas in 1924 traffic totaled on an average 3,481,000,000 ton-

kilometers per month, January, 1925, had the record of 4,880,000,000 ton-kilometers, which is higher than the monthly average of 1913, if ceded territory is allowed for. Owing to higher rates, receipts per ton-kilometer have of late been around 4.7 gold pfennigs, as against 3.6 pfennigs in 1913.

The weak side of the railroads' account is the impending heavy capital and repairs expenditure, owing to the fact that in the transition months little repairing was done, and hardly any new rolling stock was constructed. But in regard to current finances, the railroad corporation shows its faith by heavily reducing rates on coal, iron and other commodities to districts which are suffering industrially. Its latest *coup* is a sharp cut in coal transport rates to the North Sea and Baltic coasts, in order to enable the Ruhr coal magnates to expel from these districts sea-borne English coal.

The railroads have so far done better than optimists expected. They certainly will pay the 100,000,000 marks reparations bonds interest falling due on October 1. They will probably pay the 595,000,000 interest due in the second reparations year. Given normal conditions the later standard payments of 660,000,000 will be easier than the 595,000,000 of 1925-26. A longer period will have been allowed for reconstruction, reorganization and economies. With the railroads, much more than with the budget, the first years must be hardest.

The Industrial Bonds

THE ability of industry to pay the stipulated interest on its reparations bonds is the obscurist question of all. Unlike the Finance Ministry and the railroad administration, industry as a whole has no collective accounts to serve as a starting point for calculation.

Developments so far are favorable.

The burden of the industrial bonds on individual industrial concerns has proved to be only about three-fifths of the original estimate. The government at first calculated that the 5,000,000,000 gold marks of industrial bonds would represent at least 20 (at most 25) per cent of the net assets of the corporation. Later the charged property was valued at 29,240,000,000 gold marks, and this brought the estimate down to 17.1 per cent. A final valuation, made after the issue of the first corporation gold mark balance sheets had revealed the true situation, raised the value to 31,579,000,000, and reduced the average burden of the individual corporation to 15.73 per cent.

The Dawes Committee imposed the whole burden upon industry. Corporations engaged in banking, insurance, trade, and the hotel business were exempted, also agricultural land and city real estate. Further, only industrial corporations whose net assets were assessed for property tax at 50,000 marks or over were liable. These conditions have remained unchanged as far as liability for the capital of the bonds is concerned. But the government has since put through a law requiring all banking, insurance, trading and hotel businesses to pay their share of the annual interest on the bonds; and it has further changed the exemption limit from 50,000 to 20,000 marks. Under this law all concerns of the least importance (except agricultural and city real estate) will contribute towards the interest. Even without this help, industry would only have to pay (when the payments reach the standard sum) 6 per cent on 15.73 per cent of its capital, or 0.95 per cent on its whole capital. With the liability spread to all kinds of corporations and businesses, the burden on the individual concern will be very small.

Judging by earnings in 1924 it will also be easily borne. In the first post-war years only insignificant paper-mark dividends were paid, and for 1923 none were paid at all. Corporation reports for 1924 show very considerable dividends, often exceeding the prewar. Textiles corporations in particular flourished. Some have paid as high as 20 per cent. The annual reports of the great coal and steel concerns have not yet been published. They will probably pay smaller dividends. But that will be because of a special and temporary reason, the Ruhr occupation. There is very little doubt that in the second reparations year, 1925-26, the small interest sum of 125,000,000 marks on the industrial bonds will be easily earned. The full 6 per cent interest (including 1 per cent for amortization) will not be payable until two years later. This, which represents an annual total of 300,000,000 marks, should also be well within the capacity of the republic's combined industrial trade, banking and other liable concerns.

The External Question

IT seems certain that Germany can raise without much difficulty the present reduced and the later increased standard annual payments. But the question of her transfer of these payments to abroad is not cleared up.

The foreign trade balance is not only passive. It is increasingly passive. In the two years, 1922 and 1923, preceding the initiation of the Dawes Plan, imports were almost fully paid for by exports. In 1922 imports were valued at 6,303,000,000 gold marks, and exports at 6,181,000,000. In 1923 imports were valued at 6,081,000,000, and exports at 6,079,000,000. But whereas in 1924 imports rose to the large total of 9,317,000,000, exports were only 6,567,000,000. In the present year so far things have been even worse. The imports of the first quarter jumped to 3,605,000,000, against which were only 2,040,000,000 exports. Should that continue, Germany in 1925 would have to pay to abroad for imported commodities 6,260,000,000 marks more than she received from abroad for exported commodities.

Such conditions threaten the break down of the whole Dawes transfer system. They threaten the currency. The big import surplus of 1924 was paid for only because there was an active foreign payment balance due to special and temporary causes. Here is the official estimate:

Received from:	Millions of Goldmarks
Yield of foreign loans	1400
Export of hoarded foreign banknotes	700
Export of hoarded foreign bills	1800
	3900
Deficit on trade balance	2700
Active payment balance of	1200

This 1,200,000,000 marks was used by the Reichsbank in order to increase its own hoard of gold and foreign exchange.

What will happen to Germany when all the hoarded foreign currency is realized, and when the inundation of foreign loans and credits ceases? The answer is that unless she improves her trade balance, her new reichsmark's exchange will begin to depreciate even without its having been put to the strain of reparations cash transfers to abroad. In that event the transfer committee will not even dream of making transfers.

Imported Capital Came in Goods

BUT no competent German expects that things will get as bad as that. The foreign loans which paid for a great part of the import surplus in 1924 were largely the cause of the surplus. They represented imported capital, and the capital came in shape of goods, largely raw materials. The big import surplus will not be maintained. Even 1924 was not as bad as it looked. A great part of the imports came from Alsace-Lorraine. The impending abolition of the French right to import goods into Germany duty-free, which right was to expire on January 10 last, caused a rush of goods by persons eager to get in before it was too late. Also in 1924, though exports were so much smaller than imports, they steadily increased from month to month, whereas imports from month to month were highly erratic. These and many other factors, including the recently concluded or impending commercial treaties with ally powers, point to an improved relation of exports to imports. Some optimists even expect that the present year, though it began so badly, will produce equilibrium. This would be a first stage towards solving the external question, which is the real crux of reparations. But the necessary surplus of exports over imports which would enable reparations to be paid without recourse to further foreign loans is probably a long way off.

A very long way off. Nevertheless, the Dawes Plan has succeeded so far. It has fully realized its program; and its creators can fairly claim that the possibility of difficulties in the future in no way discredits their plan. Difficulties were expected; and General Dawes and his collaborators rightly foresaw that the transfer problem would present the chief difficulties. Only when the difficulties have arisen and have failed to be overcome will any critic be entitled to say that the plan was unwisely conceived.

Call For Bank Aid

AS the first step in the movement for the reconstruction of Santa Barbara after the California city suffered heavy losses from the recent earthquake, the Santa Barbara Clearing House Association sent a call to eighteen of the largest American clearing house associations for subscriptions from the banks for a $20,000,000 building and loan fund. The plan is for loans on first mortgages up to 60 per cent on conservative appraisal values, running for five years at 6 per cent interest.

The clearing houses of San Francisco and Los Angeles responded at once, offering to subscribe $1,000,000 each.

Steadier Interest Rates Under the Federal Reserve System

By W. RANDOLPH BURGESS

Assistant Federal Reserve Agent, Federal Reserve Bank of New York

The Interest Record of 95 Years. Are Rates Higher or Lower? Since 1914 the Spread Between Longer and Shorter Maturities of Commercial Paper Has Been Shortened. Less Spread in the Interest Rates Between Cities of the East and the West.

INTEREST rates are interesting primarily because they are indicators of credit conditions. When William Jones, hardware merchant, is considering an increase in his stock of hardware, his decision does not rest largely on whether his bank will charge him 5 or 6 per cent on his loan. The real question is whether he can get the money and whether his banker will give him assurance of future accommodation.

When interest rates are high or rising, it is less easy for Jones to get a loan or the assurance of future loans, because the banker is "loaned up" and is having difficulty in maintaining his reserves. When interest rates are low, it means that funds are readily available, and the banker is anxious to make loans.

For the banker interest rates themselves are important, but much less important than the underlying credit conditions which determine the banker's ability to maintain the volume of deposits, to keep funds steadily employed and to avoid losses. Changes in interest rates are the outward evidence of changes in underlying credit conditions.

A history of interest rates in this country reveals the financial crises of the country. This may be illustrated by diagram 1, which shows the interest rates on commercial paper in the open market each year since 1830. A tiny circle shows the average for each year, while a line extends from this circle upward to the highest point of the year and another line downward to the lowest point of the year. High interest rates mark the business disturbances of 1836, 1848, 1857, 1873, 1893, 1896, 1907 and 1920.

When in the future we look back on the history of interest rates in this country, it seems not improbable that we shall recognize two outstanding events which have led to greater stability of interest rates. The first one was the establishment of the National Banking System, the full effects of which were not clearly observable (as Diagram 1 shows) until some years after the close of the Civil War; and the second, the establishment of the Federal Reserve System, the effects of which are only now gradually becoming evident.

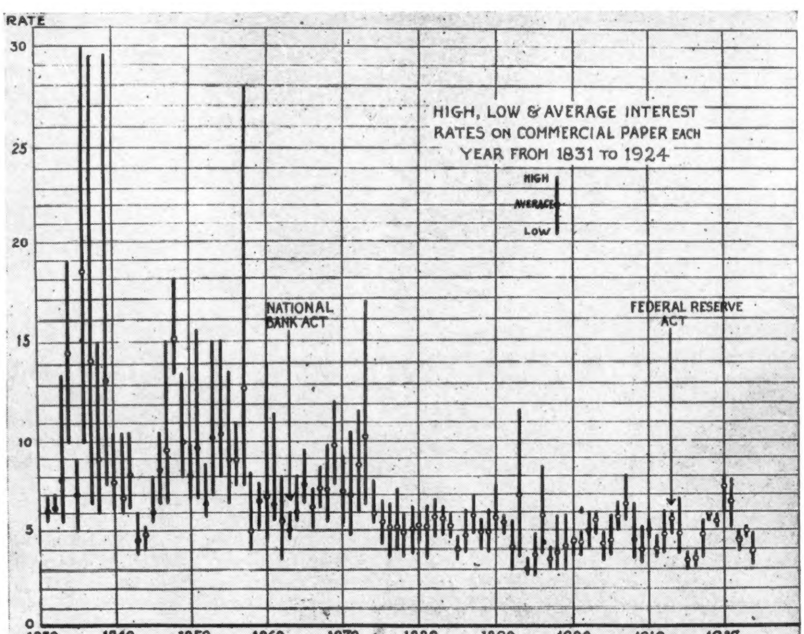
The stress of the Civil War resulted in the establishment of the National Banking System and the placing of the nation's currency on a sounder basis. After the strain of the war had passed and after specie resumption in 1879, the sounder organization of our credit system was reflected in lower and more stable interest rates. Even the severe financial disturbances of the nineties failed to produce such fluctuations of rates as occurred in the thirties, or the fifties.

But there were still defects in the structure of our credit system. Every year there was a characteristic seasonal credit strain, with a corresponding movement of interest rates. In times of emergency there were erratic and violent movements of money rates reflecting recurrent credit strain. The rate movement in 1907 is described in the following quotation from a report by the Senate Banking and Currency Committee in November, 1913:

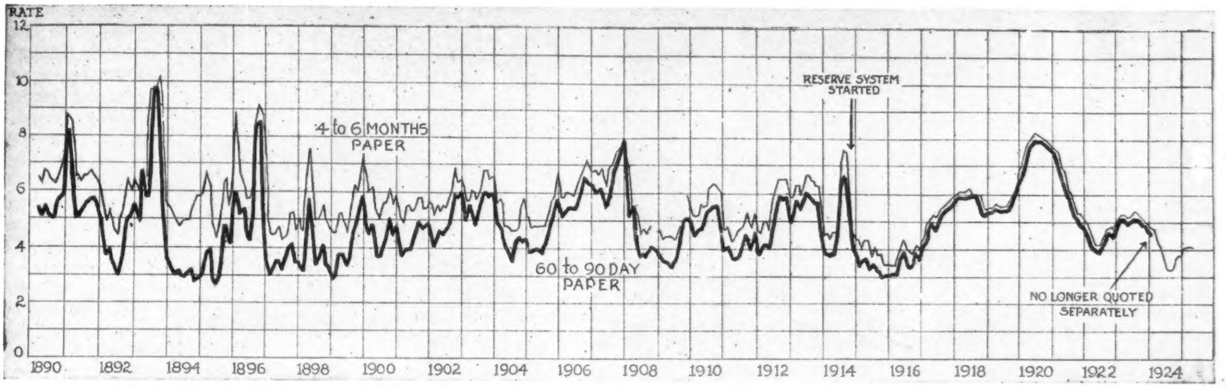
> **". . . during the year 1907 the range of interest for money was from 2 to 45 per cent in January, from 3 to 25 per cent in March, from 5 to 125 per cent in October, from 3 to 75 per cent in November, and from 2 to 25 per cent in December, with currency bringing a premium from 1 to 4 per cent during November and December. The blighting effect of these violent fluctuations of the interest rates is demonstrated by the rate charged for 90-day time loans, which during November and December, 1907, were running as high as 12 to 16 per cent, with no business done in time loans of a longer period during the entire month of November and no business being done at times on prime commercial bills during the same months."**

One of the purposes which Congress had in mind in the establishment of the Federal Reserve System was the eradication of some of these violent movements of interest rates.

Like the National Banking System, the Federal Reserve System was inaugurated at a period of financial strain. It was plunged into the midst of war finance before it had proved itself by any period of ordinary operations. It is rather fruitless to speculate what would have happened to interest rates during the war if we had not had the Federal Reserve System. Some



1.—*In the past century open market interest rates in the United States have grown more stable at lower levels*



2.—Since the establishment of the Federal Reserve System the spread between rates for different maturities of open market commercial paper has been much reduced and rates fluctuate less

other means would of necessity have been found in the emergency for dealing with war needs for additional credit. It is reasonably sure that these emergency means would not have been as effective as the Reserve System; but as far as the facts in the case go, we know simply that, while interest rates rose to high figures shortly following the war—and there was considerable credit strain—there was nothing like the same credit disturbance as had occurred with us at the time of our own Civil War, and as occurred during and after the World War in most other countries of the world.

But we now have, in addition to the war experience, over three years of operation of the Federal Reserve System, under conditions which, despite very heavy gold imports, have been nearly normal. From the records of these years, in addition to the war experience, we are able to learn something of the effects of Reserve Bank operations on interest rates.

Are Rates Higher or Lower?

IN the long run interest rates are determined by the supply of and demand for capital. The Federal Reserve System has no power to increase or diminish the country's accumulation of capital. Its influence is felt in the short term credit markets. To the extent that the existence of the System makes the supply of credit less uncertain and so lessens the risk in business and investment, there is some tendency toward lower rates. The increase in the country's wealth from year to year furthers the same tendency. But the existence of the System has much less influence on the average level of rates than on temporary fluctuations of rates and the relationship between different rates.

The following table makes a comparison, before and after the inauguration of the Reserve System, of those rates commonly quoted on the New York market:

Table 1—Average Market Rates—New York

	Commercial paper		Stock Exchange loans	
	60-90 day	4 to 6 months	On call	60-90 day
1900 to 1913	4¾	5½	3¾	4¼
1915 to 1925	5	5¼	4½	5
1922 to 1925	4¼	4½	4	4¾

If we take a general view of these figures, we conclude that there has been no very large change in the average level of open market rates since the Reserve System was inaugurated.

A more careful inspection of the figures shows that the changes have been quite different in different kinds of loans: Commercial paper rates have tended to be lower, and loans on stock exchange collateral higher. The tendency thus far has been for business money to be cheaper and for stock exchange money to be dearer.

Reduced Spread Between Maturities

A FURTHER interesting fact which the table given above discloses is that since 1914 the spread between longer and shorter maturities of commercial paper has been almost eliminated.

Diagram 2 shows for the past 35 years the rates in the New York open market for 4 to 6 months' commercial paper, compared with the rates on 60-90 day paper. In the years before the Reserve System was established there was a considerable spread between the two rates, so that it cost the borrower from ½ to 1 or even 2 per cent more to borrow for 4 to 6 months than it cost for the shorter period.

Since the Reserve System has been in operation, however, the spread between shorter and longer maturities has been steadily reduced, and early last year rates on 60-90 day paper were no longer quoted separately. While at times there is a spread between the maturities, they are frequently sold at the same rates.

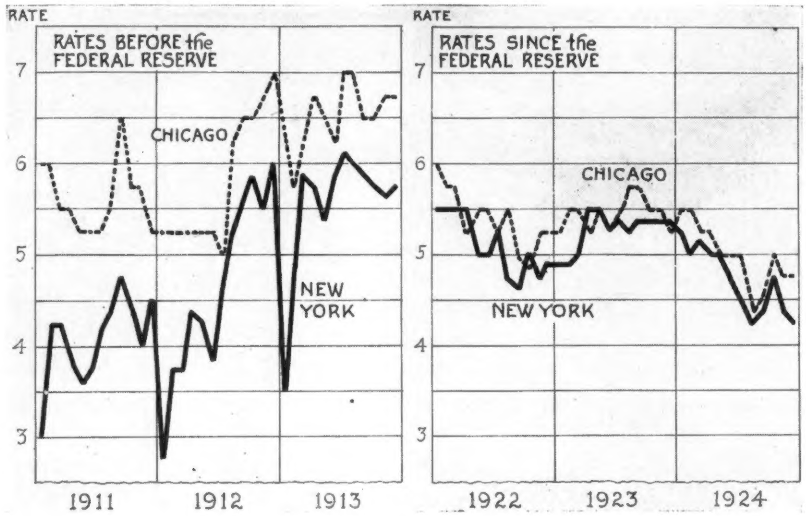
There are a number of explanations for these changes. A first consideration is that the Federal Reserve System has provided credit elasticity which makes it much easier for banks to adjust their reserve positions. In the old days very careful dating of loans and investments was necessary that a bank might be prepared to meet its specified obligations, such as tax or dividend payments, or unexpected calls on its resources, without impairing its reserve. There were no ready means, always assured, by which a bank could secure temporary aid to tide it over difficult periods. The short term obligation was, therefore, a very desirable employment for funds, because it kept funds coming back, ready for the expected or unexpected demand.

Reserve Adjustments Easier

THE Federal Reserve System has greatly simplified the problem of adjusting reserves. The member bank can now tide itself over an emergency by borrowing from a Reserve Bank. The non-member bank can secure accommodation from its city correspondent more readily, because the city correspondent can borrow from the Reserve Bank.

Besides direct borrowing from a Reserve Bank, there are now additional facilities for the adjustment of bank reserves in the existence of two new and important markets for the employment of funds for short periods. In the old days the call market was the only market from which funds could be withdrawn immediately in case of need. The Federal Reserve Act made possible the creation in this country of a bankers' acceptance or bill market, corresponding to the London bill market. This market, under the encouragement of the Reserve Banks, has developed rapidly, and at present there are some $800,000,000 of bankers' bills outstanding, a volume of paper not far short of the amount handled in the commercial paper market. The importance of the bill market for our present discussion lies in the fact that it is a "two-way" market. The dealers not only sell bills to banks and other investors, but they buy bills from them. The holder of a banker's bill can always get out his money at once by selling the bill to a dealer or to a Federal Reserve Bank. For the Reserve Banks stand ready to buy bills from banks or from dealers at established rates close to current market rates. Many banks now make it a practice to carry some bills in their portfolios to be liquidated at any time there is need for funds.

Another recently established market, fostered by the Reserve Banks, which offers somewhat similar facilities is the market for government certificates of indebtedness and treasury notes. This is also a two-way market (dealers buy securities from investors as well as sell them), and funds employed in it are available at any time.



3.—In recent years the difference between the interest rates Chicago banks charge their customers and the rates New York banks charge has been much reduced

The existence of these two markets, in addition to call loans, as avenues for reserve adjustments, together with the possibility of direct borrowing from the Reserve Banks, gives banks greater freedom as to the maturities of their loans and removes much of the difference in desirability between different maturities.

A still further and perhaps more important explanation for the narrowing spread between rates for different maturities has been set forth by Col. Leonard P. Ayres, vice-president of the Cleveland Trust Company:

"the dominant reason for this difference (reduced spread between maturities) appears to have been that in those days it was far more hazardous to lend money for as much as six months than it was to lend it for only two or three months. In the years when recurrent panics and crises were among the expected events of our financial operations no one could know what even the next six months might bring forth, and lenders had to be paid for taking the risks of making the longer loans. . . . Under the Federal Reserve System many of the uncertainties and sudden changes in money conditions have been removed and hence there is little difference between the rates charged for short and long periods."

Reduced Spread Between Cities of West and East

WHEN the Federal Reserve Act was being discussed in Congress, the hope was expressed that the proposed legislation might result in lessening the disparity between interest rates in different parts of the country. It has been disturbing that the Minnesota farmer should pay 6 to 8 per cent for his money, while money sometimes went begging at 2 per cent in the call loan market in New York.

This difference in rates is the result of a number of factors, several of which probably will always be operative, no matter what kind of banking system is in operation. The rural bank explains high rates on the ground that it costs more to make the loan to the farmer because of the high cost of maintaining a local bank, handling many small accounts, determining the farmer's credit, following up the loan and taking the risk of crop failure. And the money lent to the farmer is tied up for an indefinite number of months, whereas the call loan can be liquidated at any time. All of these are differences in the character of the two loans which the Federal Reserve System cannot alter.

But there are other factors in the difference in interest rates between different parts of the country, and these factors have to do with the fluidity of the country's credit. In the old days there were a number of barriers to the free flow of funds throughout the country. Settlements between different parts of the country required eventually the expensive shipment of currency. Under the old check collection system with its exchange charges, its indirect routing and complex special arrangements, it took twice as long to make settlements as it does at present. There was usually a premium or discount on New York funds in Chicago or other western centers; the purchase of New York or other out-of-town funds was like the purchase of foreign exchange.

These barriers hindered surplus funds in one part of the country from finding employment in some other part. There was little automatic correction for high rates by the flow of funds from the center where they were in ample supply to the center where they were dear.

Furthermore, these barriers stood in the way of the most efficient operation of banks in the West and South, because they prevented free access to the New York money market. A bank's power to keep its funds fully and profitably employed depended not a little on the ease, speed and economy with which it could buy or sell short term securities or deal in call money. In the old days it was expensive and inconvenient for remote banks to keep their funds fully employed at all times by adjusting their positions through the principal money market in New York.

Barriers Broken Down

THE Federal Reserve System has broken down many of the barriers which hindered a free movement of funds. Check collections have been made faster, safer and cheaper. Transfers of collected funds are made by telegraph without cost to member banks. Settlements no longer require the shipment of currency, but are made by bookkeeping entries on the reserve accounts of the Federal Reserve Banks. Banks are now much less dependent on the New York money market, since adjustment of reserves can be effected at their local Federal Reserve Bank. At the same time access to the New York money market has become easier, and the money markets of Chicago, Boston and other centers have grown in importance. All of these changes in the mechanism of banking intercommunication may be expected to reduce the spread between interest rates in different parts of the country.

It is not possible to secure complete facts to test the soundness of this logic, but some few are available. Some years ago Bradstreets began collecting from typical banks in certain centers the rates which they charged their customers on prime commercial loans. *The Annalist* began a similar report in 1911. The Federal Reserve Banks have been collecting such figures in recent years. The New York and Chicago rates for three years just before the System was established are compared in diagram 3 with the figures for the past three years. The diagram indicates that before 1914 rates were at times twice as high in Chicago as in New York, and the difference was always considerable. Now the spread between rates is almost negligible.

Table 2 indicates that, for other centers as well, the gap between rates in the central money market and in other parts of the country has been narrowed. More nearly than ever before, the country's supply of credit has become a single pool accessible to all parts of the country. For the most part, differences in rates now represent not the influence of artificial barriers, but genuine differences in risk and cost of administration.

Table 2—Average Interest Rates on Customers' Prime Commercial Paper, 4-6 months

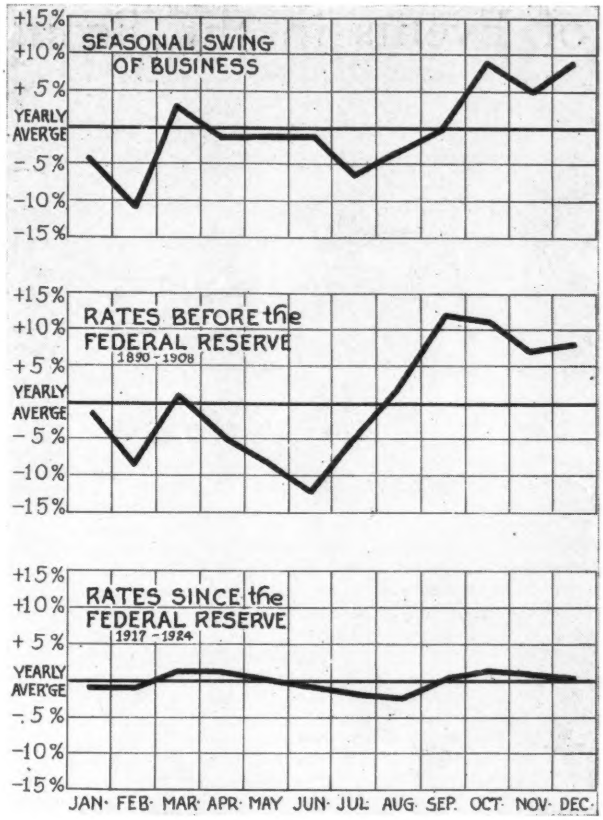
	1911—1913	1922—1924
New York	4.74	5.03
Boston	4.86	4.99
Philadelphia	4.97	5.22
St. Louis	5.87	5.27
Chicago	5.98	5.28
Minneapolis	6.15	5.49
New Orleans	7.11	6.10
Kansas City	8.00	5.96

Of course, the problem of the Minnesota farmer is far from solved. He pays rates higher than the call rate in New York or the bank customer's rate in Chicago or St. Louis. He will continue to pay high rates until a method has been discovered to administer banking service for the farmer more economically than now and to take out of the farm loan some of the present uncertainty and delay in repayment. But the existence of the Federal Reserve System, together with the accompanying development of the country's money markets, has brought the farmer one long step nearer to the central money market, and rates in many western centers are now nearly on a par with rates in New York. The banks in these centers are thus placed in a position to serve agriculture more effectively and reasonably, by financing the movement of farm products, by buying agricultural acceptances, by serving correspondent banks in rural districts.

Another fact of major importance revealed by diagrams 2 and 3 is that money rates fluctuated from month to month much more rapidly and widely before the Federal Reserve System was established than they do at present. The reader will have noted that these fluctuations were partly due to a more or less regular seasonal swing of interest rates. In January and February money tended to be easy. In the early spring rates rose, as the demand for funds increased with the planting of crops and spring trade. Toward summer rates fell, but rose again to the year's high point in the autumn with harvesting and autumn trade. They continued generally high throughout the holiday period with its heavy currency requirements. Changes in rates thus reflected directly changes in business and agricultural activity; for in the old days there was no way by which the supply of funds could be increased or diminished to correspond with changes in the demand.

Since the establishment of the Federal Reserve System, such seasonal movement of interest rates has practically ceased.

Diagram 4 is an attempt to summarize more clearly the change which has taken place in the seasonal movement of interest rates. The top section shows the seasonal movement of the volume of trade.



4.—*Before the Reserve System was established, the usual seasonal swing of business resulted in a seasonal swing in interest rates because credit was not elastic. Now the seasonal changes in business have little effect on interest rates, because credit is elastic*

Retail and wholesale trade do the heaviest part of their business in the autumn. The building industry is most active in the spring. Agriculture calls for largest amounts of currency and credit for the spring planting and the autumn harvesting of crops. The line in the diagram, which is a composite of all kinds of business, reflects this concentration of activity in spring and autumn.

The middle section of the diagram shows the typical annual fluctuations of interest rates from 1890 to 1908, and reflects the strain on the banks which resulted from the seasonal swings of business. The lowest section shows the typical annual fluctuation of rates from 1917 to 1924. Rates no longer reflect credit strain in the spring and autumn, but are steady throughout the year.

The explanation of the striking change which has taken place in the annual fluctuation of rates is found in the credit elasticity of the Reserve System. When money tends to be in small demand, the member banks utilize any surplus currency or other funds to pay off their indebtedness at the Reserve Banks. Surplus funds are not thrown on the market as they used to be, except at periods when banks may be out of debt at the Reserve Banks; thus there is now less tendency for rates to be reduced in times of small demand. Similarly, when the demand for funds is large in the spring and in the fall, the member banks may secure necessary additional funds from the Reserve Banks, either by borrowing or by the sale of acceptances, so that they are in a position to meet the demands upon them without any considerable tightening in credit.

The significance of all this is that in the old days business men were subjected to a constantly fluctuating price for funds. This, perhaps, was no disadvantage for those businesses whose borrowing was so flexible that it could be done at any time of year. But it was hard on the man who had to borrow in the fall or the spring, and it was particularly hard on agriculture, because money was tight just at the time when seed had to be planted and when crops had to be harvested.

For bankers the chief disadvantage in the old fluctuations in interest rates, and the credit changes they signified, was that the banker constantly faced either a plethora or a dearth of available funds, with a consequent continuous problem in keeping his reserve position adjusted. As both plethora and dearth can now usually be avoided through the Federal Reserve System in the manner above indicated, the banker can maintain his position with a narrower margin of working reserves, thus employing his funds more fully at steadier rates.

While the old seasonal fluctuations of interest rates were important in themselves, because of the way they penalized certain forms of business and because of the difficulty in which they placed the banker in the employment of his funds, the fluctuations had their most serious consequences in periods of crisis when the seasonal credit strain was added to a credit strain from other causes. It was not by accident that most of the money panics in this country occurred in the fall of the year; it was in the fall that the usual seasonal strain, added to an unusual credit and currency stringency, became the last straw that broke the camel's back.

Rates in the Business Cycle

ASIDE from the seasonal movement described above, there is another movement of business which has come to be known as the business cycle. The cycle has attracted much attention to itself because it was at one particular stage of the business cycle that the business panic or crisis frequently made its appearance.

When business reached a point of maximum operations, large additional amounts of credit were called into being, and large amounts of currency were needed for circulation. On these occasions banks were put to it to maintain their reserves, and at times the credit structure cracked under the strain. Banks reached a point where they could lend no further without impairing their reserves. Money rates rose to high figures. The business man who had expanded his business to the utmost suddenly found himself shut off from additional credit, and business and bank failures were the order of the day. It was a situation of this sort in 1907 that the Senate Committee was describing in the report in the early part of this article.

Since the establishment of the Federal Reserve System we have had no money panics and no such sudden violent movements of interest rates as characterized those periods. The elasticity of credit and currency which the Reserve System provides makes it unlikely that we shall ever again experience a financial panic of this sort.

There were, of course, in the old days business cycles which did not result in financial panics, in which the period of prosperity came to a culmination without serious financial distress. We have had too little experience as yet to know precisely what the movement of rates will be in the course of a normal business cycle under the Federal Reserve System. The only complete cycle in reasonably normal years has been in the years from 1922 to 1924, during which rates were remarkably steady, despite tremendous gold movements and considerable fluctuations in business activity. Some years from now we shall know whether this was a normal or

(*Continued on page* 20)

Pen Views of Events in the Economic World

"Getting Ready to Give Him a Rise." —De Mar in the Philadelphia Record

"While the Sun Shines."—Sykes in the New York Evening Post

"Not Only Rocking the Boat, but Scaring the Fish Away."—Orr in the Chicago Tribune

"You'll Have to Quit Drawing Me Like That!"—Pease in the Newark Evening News

"Beg Pardon?"—Harper in the Birmingham Age-Herald

"A Hard Vacation Diet."—Rodger in the San Francisco Bulletin

"Must Come Back to It."—Cargill in the Little Rock Gazette

"Making the Money to Pay Us What He Owes."—By Spayth

"Settled by Uncle Sam."—Williams in the New York American

The Ruthless Waste of Wealth

By WILLIAM E. KNOX
President American Bankers Association and President of the Bowery Savings Bank, New York City

Ability to Use Pay Check Intelligently Comes Nearer Bedrock of Permanent Progress Than Any Other Force. Sound Cooperative Scheme to Help Men Get Ahead Would Go Far Toward Meeting Need. Waste Would Give Wage Earners All They Demand.

WHATEVER degree of success the world's democracies have had can be attributed largely to man's inherent desire to be independent and to the leadership of those who have fought for this great cause.

The principle upon which this government was founded was Independence. That was the great burning passion of our Colonial fathers. In those days that one word summed up the essence of democracy and provided the theme for one of the most courageous and brilliant pieces of leadership in human history.

It seems to me that there is no need in our national life today more vital than the revival of the spirit of independence; the ability and vision to interpret it in its full significance, and the leadership and common intelligence to make it effective.

Naturally, the primary duty of the pioneers of this country was to interpret independence in its political sense and to design a form of independent government. And the greatest civic duty that we as individuals have to perform now is to live up to the conception of popular government that our forefathers laid down for us a century and a half ago.

Independence at the present stage of development and progress of our national life has another significance in its broad economic meaning. The ability to apply the primary principles of personal economics, and particularly the ability to use intelligently that common thing we call "a pay check," comes as near the bedrock of permanent human progress and independence as any other force in life.

A Real Foundation

AND the one who takes the trouble to think that statement through to its full and logical conclusion will agree, that the ability to manage one's financial affairs successfully is not only in itself a great virtue but it is the soundest and most practical foundation upon which to build all the other virtues of life and citizenship.

You may call this materialism or call it what you like, the truth remains that if men during the centuries past had been taught and helped to use their money wisely, civilization would be farther along in every line of human effort. Our morals would be just as sound; our religion just as sacred; our ethics just as honest, and individuals would be a great deal more happy and independent.

Bankers should take part in the civic and political affairs of their communities, and I know of no group of people better qualified in experience and influence to help direct these affairs than bankers.

A New Age in Banking

WE have entered a new age in American banking. We are adopting new policies and broadening our field of usefulness. The modern banker is the friend of the plain people. He is coming to be an advisor and councillor in their personal financial matters. He is coming, in a sense, to be their father confessor in their most intimate life problems. And this is as it should be. A bank should be a great social influence in the community and the banker a leader for the practical advancement of the social welfare.

I am not advising that the banker get into politics in the general meaning of that term, though it might be a good thing if more of them did, but merely that he use his normal influence to advance the average of common thought and common action in his community.

If I really wanted to accomplish results in politics, I had rather be on the local school board than in the state legislature. I had rather help to direct the training of the nation's children than to make the nation's laws. The chief hope of improvement of our political and civic standards lies with public education and not with politicians. If the true political independence of this country is to be preserved, young people must be taught their individual responsibility and civic duty; the purpose of political parties; the object of party government; the menace of the demagogue; the partisan and selfish political organizations. They must be taught that individual responsibility can be met only by intelligent individual thought and action, and in the degree that we multiply blind partisanship in that degree we complicate our political problems. When our public schools teach the nation's children their full responsibility as citizens, we will not need so many politicians and law makers.

While I have always been an ardent supporter of woman's suffrage, it might be well for the women of this country to ponder the fact that whether fifty million persons vote or twenty-five million is not the vital thing. Doubling the electorate may merely doubly complicate our political problem. I had rather have the political and civic influence of our American mothers as leaders and teachers in the homes, in the schools, and in the women's clubs of the nation than to have their ballots.

All They Ask

THE waste in American industry and in the use of private incomes in this country represents enough money to give wage earners all they have asked for in their most extravagant demands; to furnish capital larger returns on invested capital; and to save the public untold millions in the cost of commodities.

And this is not merely a loss to those who invest their capital in private enterprises and those who spend their incomes. It is a public loss and a social damage that cannot be repaired. It puts squarely before us a problem of universal economy that challenges the efficiency of our industrial system, the economic intelligence of American citizens, and strikes at the very heart of our economic civilization.—WILLIAM E. KNOX.

Most Practical Way to Improve Citizenship

BUT, allowing that bankers, business men, women and others should take an active part in political affairs, I still insist that the greatest problem of independence of the average man or woman has always been, and still is, how to get out of what they earn a good living and a reasonable degree of financial comforts in old age. And the most direct and practical way to improve the citizenship, to teach individual responsibility and civic duty, and the essence of independence, is to establish an organized movement to teach the nation's children in our public schools and help working people in American industries to use more intelligently the thing we call "an income."

Good citizenship is so bound up with the economic needs and habits of the people that we cannot maintain a high standard of national life without an intelligent understanding of the financial problems that constantly confront the average individual and family.

In the accumulation of capital in the hands of the masses lies the hope of the true independence of a nation's people, the strength of a nation's economic system, the stability of a nation's government, the elimination of

unsound radical tendencies, and the beginning of a permanent settlement of industrial disputes.

Upwards of 35,000,000 people in the United States have incomes under $2,500 a year, with an average of under $1,200. The chief concern of these people is, and should be, how to get a reasonable degree of financial independence out of what they earn. And they must figure out their independence on what they actually earn. They cannot count on what they would like to earn or what they think they should earn.

If employers and employees in American industries had spent part of the time that they have used in quarrelling over wages and profits in developing a sound cooperative scheme to help men get ahead on what they were actually getting, the average wealth in the hands of American citizens would be vastly greater and more evenly distributed and we would have come nearer to a solution of industrial controversies than we ever will come by magnifying our differences.

The Everlasting Controversy

THE everlasting controversy of the economic world has been the distribution of wealth. But at this stage of our economic development the most important thing about wealth for employee, employer, and the public is not the method of its distribution but the proper use of wealth and the ruthless waste of wealth. Moreover, the quickest way and the best way to bring about a more even distribution of wealth is to establish an intelligent understanding of its use and to eliminate its waste.

The waste in American industry and in the use of private incomes in this country represents enough money to give wage earners all they have asked for in their most extravagant demands; to furnish capital larger returns on invested capital, and to save the public untold millions in the cost of commodities.

And this is not merely a loss to those who invest their capital in private enterprises and those who spend their incomes. It is a public loss and a social damage that cannot be repaired. It puts squarely before us a problem of universal economy that challenges the efficiency of our industrial system, the economic intelligence of American citizens, and strikes at the very heart of our economic civilization.

But somehow, this question of how to attain personal financial independence has not worked out on the principle of individual responsibility.

I should like to see brought together a group of outstanding Americans—business executives, life insurance men, bankers, labor leaders, and others, including some women—who would draft a set of principles for economic independence and personal financial success. And if that thing were properly approached and followed through to its logical conclusion, those people would set before the people of this nation a purpose and a need comparable in its influence to the Declaration of Independence itself, and they would go down in history as the greatest benefactors of modern democracy.

This proposal is in harmony with the President's splendid policy of economy in the operation of government and such a group if called together might well further a movement to extend that policy of economy to the incomes of the common people.

Most Important Economic Needs

IF I were asked to give what I think are the most important economic needs in this country today, I would say: First—the establishment of a course of instruction in public education that would give young people a practical notion of how to start life on a sound economic basis and what the requirements of economic citizenship are. Second—a broad cooperative plan in American industry whereby men and women shall be helped at their place of employment to work out a personal financial program and plan in cooperation with their employer that will guide them toward a definite goal in their money matters and inspire them to strive toward a reasonable degree of financial independence.

One of the foremost thinkers on labor matters in the country, a capable executive and employer of, thousands of men, said some months ago: "There ought to be a way for a man to put aside a dollar or two a week now and to get back four or five dollars a week forty or fifty years later. He ought to be able to do this regardless of where he works. If one of our people had saved in this way for a dozen years, and then chose to leave us and take a job some place else, he ought to be able to keep along with the same scheme. It would pay us or any other firm not only to tell our people about such a plan but to provide a substantial payment to make the plan more inviting."

The present policy in American industry of helping employees with their personal problems is based upon the assumption that they will ultimately become dependent, and, to meet this condition, we provide old age pensions and other forms of charitable compensation. Such provisions are to be commended, of course, in lieu of a practical alternative, but in principle they are wrong and contrary to the purposes of democracy. What we want is an organized plan that will direct working people toward independence, and no system of industry can lay claim to complete success that does not contemplate the financial independence of every employee, according to his ability to earn.

Urges a New Economic Philosophy

WITH a broad cooperative plan for systematic saving, looking to the ultimate independence of working people, I think it can be shown that American employees, with reasonable prudence on their own part, can reach a fair degree of independence while they are still working, and at no greater cost to firms than is now required to maintain old age dependents. And here, it seems to me, is the most logical place in our national life to demonstrate the principle of cooperation.

If a solution of our industrial differences in America is to be found and the waste in business and in the use of personal incomes checked, the remedy, in my judgment, must be sought in some non-controversial influence that will command the cooperation of both employers and employees in a common cause. In other words, there must be injected into our industrial policy an additional economic element of mutual benefit and permanent value to both labor and capital, concerned not alone with the amount of wages and profits that are earned but with how these earnings shall be used.

I am arguing for a new economic philosophy; for a positive and not a negative philosophy; I am arguing for a better understanding of common financial problems and more intelligent use of money. I am arguing for the elimination of waste and for an industrial savings policy based upon the principle of independence; a policy that will give the average American a greater incentive to help himself. I am arguing for a new basis of cooperation in industry, for the elimination of poverty, and for a practical demonstration of economic democracy. When public education teaches school students how to manage their personal affairs intelligently, gives them an understanding of the value and use of money, and provides the means of applying these principles to their everyday experiences in the school; when the heads of firms make it a requirement that every young man and young woman who accepts a position shall be working toward a definite goal in saving money; when banks recognize their full responsibility as economic advisors of the community, we will attack economic illiteracy at the source and begin to save men from the tragedy and embarrassment of financial dependency.

Tenth Anniversary in St. Louis

MOST of the 522 member banks in the Eighth Federal Reserve District were represented in St. Louis on June 18 to celebrate the opening of the new Federal Reserve Bank Building.

The program which was under the auspices of the Bankers Club of St. Louis consisted of an informal reception and trip of inspection through the new $4,000,000 banking house, a boat trip on the river and a horse show and military exhibition at Jefferson Barracks.

The program was entirely informal and without speeches save that D. R. Crissinger, governor of the Federal Reserve Board, made a brief talk on board the steamer.

Dwelling on the day's celebration, John G. Lonsdale, president of the National Bank of Commerce, and chairman of the Special Federal Reserve Day Committee, declared it was a memorable milestone in the financial affairs of the Mississippi Valley, because it marked the first ten years of splendid service by the Federal Reserve to the Eighth District branch in behalf of business in general, and it marks the dedication of the new bank building.

Associated with Mr. Lonsdale on the committee were: R. S. Hawes, vice-president of the First National Bank; George W. Wilson, vice-president of the Mercantile Trust Company; J. Sheppard Smith, president of the Mississippi Valley Trust Company, and W. B. Weisenburger, secretary, National Bank of Commerce.

Does the World Face a Period of Low Interest Rates?

Prophecy Is Made by Economist That Average Rate in 1935 Will Be Between 3 and 4 Per Cent. Gold Will Not Fall in Value. Loss in Individual Savings Counterbalanced by Compulsory Savings to Make Debt Repayments. Europe Saving.

THE world will witness a period of low interest rates, declares an unnamed correspondent in the London *Economist.* About 1935, he thinks, the average will be between 3 and 4 per cent. Because the United States has changed from a capital importing to a capital exporting country, it will obtain a lower rate of interest than before the war.

Making a forecast of the rate of interest that may be expected to prevail during the next decade, the prediction is ventured that the average rate of interest around 1935 in the great financial centers of London and New York will be found nearer 3 per cent than 4 per cent, and even lower than the pre-war average.

The Three Conclusions

IN making this prophecy, the economist bases it on three important conclusions:

First, gold will not fall in value, but will tend to appreciate and thus there will be no tendency to increase the money rate of interest above the normal rate.

Second, while individual savings may be less than before the war, in a great number of countries compulsory savings effected by the repayment of war liabilities will go a long way to counterbalance the decline in individual savings.

Third, the demand for capital from Continental countries of Europe will be less than is generally believed, because most of the fixed capital destroyed during the war and during the post-war period has been restored. There will be a marked decline in the need for new savings because the birth rate will be lower and thus less will be needed for the rearing of a growing population and for the construction of houses.

Weighing all of these factors, the prediction is made that the future rate of interest will be comparatively low. While the writer admits prophecy as to the future of economic development has failed often in the past, he emphasizes what an important discovery it would be if the probable rate of interest could be calculated. This would afford a "most important factor in framing a conversion policy for national debt, in making house construction schemes and in solving the unemployment problem. The investing public would know how to appreciate the current loan issues and business men how to provide for capital outlay," he comments.

Economizing in Gold

CONSIDERING the probable development in the purchasing power of gold, it was recited that the financiers who gathered at the economic conference at Genoa in 1922 proposed that some means of worldwide economizing in the use of gold should be provided, so that a rise in its value, which would be caused if a number of countries competed with each other at the same time to secure metallic reserves, might be avoided. It was feared that a rise would bring an increase in the burden of the public debt and a depression in trade. With the world largely back on a gold basis and the various currencies stabilized with reference to gold, the writer maintains that it is distinctly to the interest of the United States to maintain this stability.

A further fall in the value of gold also would reduce the ratio between the fiduciary currency in circulation and the gold held by the central banks in various countries. Inasmuch as more currency is needed because prices are higher, while the ratio of gold to currency outstanding stipulated in the currency laws is still the same in many countries, it is insisted that a larger stock of gold is needed for reserves than before the war. Furthermore, the fall in the value of gold by 30 or 40 per cent between 1914 and the present time has made gold production less profitable and has increased the industrial demand.

While it is maintained that the cumulative effect of the Federal Reserve System, with the centralization in the holdings of gold, and the possible introduction of a gold exchange standard in a number of countries may lead to sufficient savings that will overbalance the other factors, it is the view of the economist that these measures have already been fully in operation and "the immediate prospect is a growing demand for gold rather than the saving of it."

While it is admitted that a policy of credit inflation might be forced on a country through the pressure from business men, it is contended that there is a more or less "automatic gold standard" that operates. When credit facilities in excess of the supply of savings on the market are granted, the forced export of gold follows. Inflation causes high prices at home, bringing resistance from buyers. Foreign goods, made more cheaply, are bought and gold flows out to pay for the imported commodities.

While it is admitted that the position at present leaves more room for management than before the war, the combined effect of the reasons advanced for a greater need for gold forces the *Economist's* correspondent to assert that such a fall as would drive prices down in the United States from an index figure of 160-65 to 220 during the next ten years, is impossible. "There may be fluctuations in the value of gold, but a continuous fall, as from 1894 up to 1913, is very probable indeed," he states. "Expert opinion at present tends more and more to become unanimous that the value of gold is going to appreciate during the coming decade, if no positive steps similar to those proposed at Genoa (economizing in the use of gold by setting up an international clearing system or by maintaining reserves in the form of foreign balances) are taken to prevent such a course."

If the view that gold will not fall in value be accepted as correct, there will be no tendency to increase the money rate of interest above the normal rate—the rate resulting from supply and demand under stable monetary conditions. On the other hand, if gold should appreciate, there would be a tendency to lower the rate of interest.

Europe Saving Again

WHILE the turmoil of war and the post-war surge of rising prices discouraged the individual to save, the economist observes that conditions have changed rapidly during the past few years. In the United States, England, Sweden, Switzerland and in Holland the period of "wholesome deflation" has given the careful investor his day, it is found, while in Central European countries the incentive to save is being revived with the return of more normal conditions.

The capacity of the individual to save has declined, it is admitted, in all states except America. However, it is argued that national income will rise as reconstruction progresses and as conditions become more normal. The reduction in the income of the middle classes is probably the most serious feature of this particular aspect of the problem, especially as it may take the middle class a comparatively longer time to recover its pre-war economic position.

It is conceded by the British economist that taxation will remain high for many years. It is maintained that excise and customs duties, however, are mainly paid out of funds which would otherwise have been expended. As to the burden of income tax, the writer states that if the tax has been newly imposed, or the rate suddenly increased, a considerable portion of the tax will be paid from sums that would otherwise have been saved. And if the rate has been in force for a number of years, there will be a new equilibrium. On the average, it is observed, each class of income habitual-

ly saves a certain percentage, which is higher for the higher classes (rising in percentage with the income). On an income of £1,200 in England it is estimated that only about one-sixth of the present higher tax falls on savings. Summing up, however, the economist states that "the imposition of high taxes no doubt reduces savings, but it is probable, for instance, in England that three-quarters of the taxes are paid out of sums that would otherwise have been expended."

This loss is partly equalized by the fact that, when the yield from taxation is used for the payment of interest and the reduction of the national debt, the greater part of the interest goes to the wealthier classes of the population, to meet the interest on the obligations they hold, and thus a part of this is saved. A large part goes to insurance companies and various mutual benefit societies with the same result.

Debt Repayments Will Create Capital

OF even greater importance is the repayment of debt, it is stated. "We have seen that the taxes are paid in part from sums that would otherwise have been expended," the economist continues. "In so far as the yield of these taxes is employed for the repayment of debt, the bondholder, in 99 cases out of 100, will reinvest the amount repaid. The result will be a definite increase in savings. In the estimate made by Mr. Edgar Crampton in the autumn of 1924, the total savings of England in 1923 were estimated at about £200,000,000, of which not far from one-half was effected by means of repayment of government debt. No further argument is needed to lay stress upon the importance of these 'compulsory' savings via the Treasury, and of the policy of debt repayment.

"The same reasoning also applies to international indebtedness. The whole amount paid by England to the United States—about $166,000,000 per annum—is employed for the repayment of internal debt, and may thus be counted as a net addition to the capital available for current savings. Likewise, what Germany will pay in reparations will properly be used for debt redemption, certainly by England and probably also by France, Italy and Belgium. Before the war, the military and naval expenditures of the German Empire amounted to about 1900 million marks, which, with due consideration for the purchasing power of gold, corresponds to about 2800 million gold marks of today. If we deduct the amount appropriated for defense purposes in the present German budget—550 millions—and a further sum of 200 millions for the loss of territory after the war, there remain about 2000 million gold marks, which would be raised in Germany without any increase in taxation, given peace-time conditions.

"A policy of repayment probably increases the supply of capital, but it is questionable whether or not this compulsory creation of capital will counterbalance the decline in individual savings. It will go a long way toward it and, in a few years' time when the economic conditions of Europe have become more settled, the result is very likely to be an increase in the supply of capital."

Only Working Capital Needed

THE European nations do not need much more capital, it is maintained.

"Apart from Russia and some of the states bordering on it, most of the fixed capital destroyed during the war and in the post-war period has been restored," it is pointed out. "In France 73 milliard francs has been spent in the devastated regions, and it is estimated that a sum of about 20 milliard francs would be sufficient to complete the work. The cessation of borrowing from balancing the reconstruction accounts is within sight, much to the relief of the French capital market. There are, in fact, strong reasons to believe that in 1924 French savings were far above the actual investments of capital in France. Germany has added to her pre-war industrial equipment in the form of factories, machinery and implements. In other countries industry and trade have gradually adjusted themselves to the new conditions.

"Closer investigation seems to show that the scarcity of capital experienced on the Continent at present is due mainly to working capital having vanished during the inflation period and only to a comparatively small extent to the need for long-term investments (fixed capital)," he asserts. "This fact, however, reduces the problem to manageable proportions, for working capital represents, after all, only a fairly small percentage of the total capital resources even in an industrial country."

As another important factor, it is pointed out that most states have succeeded by now in living within their income so that there will be a negligible absorption of individual savings for the purpose of filling gaps in national budgets.

Growth in Population Less

THE economic effects of the low birth rate are direct. With very nearly stationary conditions in population for at least one generation, the need for new savings will not be as great. The United States, before the war, drew heavily on the capital of Europe to provide work and house accommodation for quickly increasing numbers. Immigration is greatly restricted and the United States has moved into the ranks of the capital-exporting countries. So America will not call on the savings of the old world to meet this need. In view of these developments, the economist maintains that the conclusion is almost inevitable that "the demand for capital will assume a character quite different from that of pre-war days, the factors on the demand side operating towards an increase in the rate of interest being certainly weaker than in the last century."

Discussing the probable rates of interest, the writer says: "There will naturally be boom periods and depression periods in the future as in the past, though it may happen that the fluctuations in the future will be less pronounced in consequence of a more intelligent credit policy pursued by the leading banks. Before the war the average was somewhere between 4 and 5 per cent, and for most countries, nearer five than four. We should think that about 1935 the average would be found between 3 and 4 per cent and probably nearer three than four in the great financial centers of London and New York.

"The supply of capital in relation to the demand will not, of course, be the same in all countries and we shall thus find higher rates in some countries than in others. As the United States is to receive, in addition to its own considerable savings, an annual contribution from Europe in the form of interest and repayment of international indebtedness, the rate of interest in New York will probably be comparatively low, especially if the restriction of immigration is maintained in its present rigorous form."

Before the war, it is observed, the rate of interest was lower in those countries that exported capital. Inasmuch as America has joined this class, does this mean that the hire of the dollar is going to be lower in the future than in the past?

Steadier Rates

(Continued from page 15)

exceptional rate movement under the Federal Reserve System.

Results for Business and Banking

FROM the foregoing evidence it appears that since the establishment of the Federal Reserve System the following important changes in interest rates have taken place:

1. The spread between long and short maturities has been reduced.
2. The spread between the cities of West and East has been reduced.
3. Seasonal fluctuations of rates have been reduced.
4. Panic rates have disappeared.

In all of these ways the result has been to give rates greater stability, to diminish change and uncertainty.

The business man with good credit can be sure of funds for conducting his necessary operations, and he does not have to pay abnormally high rates because he has to borrow at a particular time, or for a longer rather than a shorter period, or because he lives in a western rather than an eastern center.

The banker can be sure of more continuous employment for his funds than in the past at steadier rates throughout the year. With greater assurance as to the future, he can adjust his interest payments and other costs to his income. He can provide the business of the country with more assured banking accommodations at steadier rates.

Percy Johnston Honored

The honorary degree of LL.D. was conferred upon Percy H. Johnston, president of the Chemical National Bank of New York City, by the board of trustees of the University of Kentucky at their annual commencement exercises held at Lexington, Ky.

The Federal Reserve Board has ascertained that the average rate of stock turnover at department stores is 3.33 annually. The rate is based upon the experience of 300 stores in all sections of the country. Firms with the largest capital employed had the largest turnover.

The Farm Labor Problem

By C. B. SHERMAN
U. S. Department of Agriculture

Though Labor Represents the Largest Item of Expense in the Farmer's Budget Statistical Knowledge of It Is Less Than of Any Other Item. A Complex and Baffling Subject Which the Government Is Tackling in the Hope of Cutting Out Wastes.

LABOR represents the largest item of expense in the farmer's budget, yet we probably know rather less about labor than about any other item in the budget. Labor involves human beings and cannot be subjected to the same kind of analysis and study as can land and equipment, the other factors of production.

The number of farm laborers as disclosed by the census figures are difficult to use because of the changing dates on which the census is taken, and because farm labor fluctuates greatly according to season, to farm conditions as to both prices and size of crops and to conditions of employment in industrial cities. The largest number ever reported by the census (in 1910) exceeded 5,000,000. Closer and more frequent study is necessary to get more thoroughly significant figures on the subject.

Data as to wages are difficult to compile and to compare, for there is marked variation in wages paid as between regions of the country, between sections of these regions, and between farm and farm, and because the wage of a farm-hand is a complex thing not easily shown in statistical tables, for the cash wage is but one of the many considerations. Living conditions offered and cost of living in the neighborhood have an effect. Difference in usefulness of the employees have effect in some regions and not in others. In any case, the general range in wages is far less than the range in usefulness which, while perhaps well for the less efficient laborer, is a serious thing for the farmer, for on a general farm an inexperienced hand with poor judgment may be very expensive in waste, spoilage and breakage.

Both economic and social considerations demand that we know more than we do about farm labor. Is it a class by itself, more or less fixed in the social scale? Or is it merely the lowest rung of the agricultural ladder from which a large number will go on up through farm tenancy to farm ownership? How large a percentage makes the climb? What is the demand for farm labor? Where does the supply come from? What is the relationship between the labor supply and demand in agriculture and in other industries? Is it possible to chart and regulate demand, supply and wages?

Attacking the Problem

COMPLEX and baffling as the problem is, various agencies are at work on it, endeavoring to bring to bear upon all its ramifications some of the scientific and economic consideration that has been directed to the other problems of the farmer and to the other large groups of our population.

Conditions vary so greatly in different parts of the country that the Department of Agriculture has thought it well to attack the problem largely by geographic units, since these, in a broad way, represent the various kinds of farming. On the general farm in the northern part of the country the typical wage worker on the farm is temporarily a member of the farmer's family, often a neighbor's son, and, more than likely, is on his way up the agricultural ladder. In the South the farm laborers belong to a different race. On large dairy farms there is a constant shifting of labor, but on farms that provide good separate quarters and garden, married laborers with families often settle for several years.

A study of farm labor in diversified farming sections has been made in Massachusetts and another in the truck districts of New Jersey. Among other items information was gathered, compiled and published for those regions covering number of laborers hired by farmers, nationality of laborers, source or residence, education, farm experience, wages, amount of savings and forms in which they were invested, and plans for the future.

As of interest to bankers, the results of only the last two items are outlined here. In Massachusetts farm employees were asked if they had bank accounts, personal property of value, or real estate. About a third of them were asked if they had life insurance. No inquiry was made as to amount or value. One worker in three had a bank account, and almost one in four held title to real estate. One real estate owner in five owned a farm. Nearly half the laborers interviewed had one form of savings and just over one-fifth had two forms; none had more. Two out of five had no savings whatever.

Off to the harvest field—but they are workers not hoboes

In New Jersey three persons in ten who reported had no savings. Half had life insurance, the most commonly reported form of savings; two-thirds of the interviewed children of the ages eight to fifteen had been insured by their parents. One-third of the workers had bank accounts, usually savings accounts. One in ten held title to real estate. The real estate owned varied in character from city dwellings in Pennsylvania or New Jersey to cheap farm lands in southern states. About one person in four had two or more types of savings. A somewhat larger proportion of American-born than of foreign-born had saved.

In most of the cases of persons hoping to become farm owners, the expectations were to reach the goal by saving money with which to acquire title. Only seldom did anyone hope to borrow the money with which to start. Occasionally a person claimed to have on hand sufficient money or already

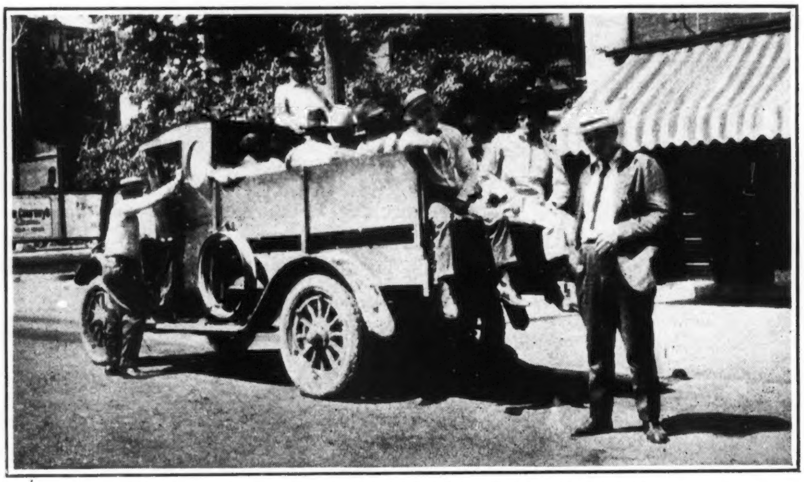
owned land with which to start farming when a favorable opportunity presented itself.

Wheat Harvest the Dramatic Phase

THERE are many picturesque and colorful phases to the farm labor problem, especially in those regions where Spanish, Indian, Oriental or Negro help abounds, but no phase is so dramatic as the wheat harvesters. This great band of roving workers, living in barns or shacks, traveling often on freight trains and on foot, supplemented by thrifty farmers who have finished harvesting on their own farms and by adventurous college boys, constitutes a hitherto uncharted section of our population that still carries with it a strong suggestion of the vanishing romance of the prairies.

The wheat harvest of the central wheat belt each year requires the services of more than 100,000 harvest hands from other states. The financial success of the wheat farmers depends largely upon their ability to secure this labor in adequate quantities and at reasonable prices.

Three agencies have set themselves to study cooperatively this question of the wheat harvesters. The United States Department of Agriculture, the United States Employment Service and the states involved are studying the characteristics of the demand for the harvesters, the sources and characteristics of the supply and the conditions of employment.



This truck was sent one hundred miles to pick up harvesters

During a recent summer over 1000 harvesters were interviewed personally. The majority were interviewed when they applied for harvest work at Federal-state employment offices in the wheat belt, but many were interviewed on the streets and around depots and railroad yards of wheat towns or while working on farms. Only 15 per cent were residents of the state in which they were interviewed, 70 per cent had permanent places of residence in other states, and 15 per cent were migratory workers without permanent homes. Nearly half of them were city bred and over half found their first job for wages in a non-agricultural occupation.

Dependent Upon Industrial Labor Supply

ACCORDING to the investigators, this demonstrates a fact that the wheat farmer, especially in the spring-wheat area, now clearly comprehends: Agriculture is dependent upon the industrial labor supply for so large a portion of its seasonal labor that the state of employment in cities and the wages, hours and conditions of employment in urban occupations largely determine the amount of labor available for farm work in any given season and the price which the farmer must pay for it. Many wheat farmers, especially in the Dakotas, say that the most critical difficulty they see in the farm-labor situation is the inability of agriculture to compete with some of the urban industries in wage rates. Agriculture itself furnished only about one-fourth of these harvesters. Most of this portion were farmers and farmers' sons from Arkansas, Missouri, Texas, Oklahoma, Kansas and Iowa, who had completed their own harvests. The remaining less than one-fourth of the agricultural men were migratory farmhands.

Information concerning the customary occupations of over 14,000 wheat harvest hands show that one-third of the entire number were laborers who worked at various kinds of seasonal work requiring a minimum of skill, such as railroad "extra gang" work, road construction, "swamping" in the woods, dish washing in restaurants, trucking and common labor in factories. They were men of no particular occupation. Many of them named from three to ten kinds of work in which they ordinarily sought employment. For most of these laborers harvesting was one of the occupations which they included in their annual cycle regularly or intermittently. Only 2 per cent of the whole number were college students.

Among the harvest hands interviewed were seventy-one farmers who operated their own farms in neighboring states and four who operated rented farms. These men left their farms and "made" the harvest as a "cash crop." These were 6 per cent of all the harvest hands interviewed by a field party. A considerable number of Minnesota and Montana farmers are found in the Dakota harvests. It is believed that the total number of farmers who make the harvest ranges in different years from 5000 to 15,000 men. Some are trying to supplement the income from a farm not able to support a family, some are earning funds to meet debts, others to buy more land, a team or additional equipment.

There is a widespread impression that the harvest army enters the harvest in Oklahoma and Kansas and sweeps northward through the ripening grain across the Dakotas and on into Canada. This is now shown to be far from true. The major portion of the harvest work of each state is done by the men who work only in that state; a large contingent of men work in more than one state, but confine themselves to the winter-wheat belt; another contingent works only in the spring-wheat harvest; a small minority go northward with the harvest from Oklahoma to the Dakotas or Canada.

Employment Service a Vital Factor

THE task of obtaining and distributing harvest hands for the wheat belt is now in the hands of the United States Employment Service, cooperating with the state employment services of Oklahoma, Kansas, Nebraska, Iowa, Missouri and North Dakota and other states, and also with the farm bureaus and county agents. Under the leadership of the employment service, a comprehensive organization for meeting the harvest labor needs of the wheat farmer has been in course of development since 1919. Year by year this service is attaining a higher degree of efficiency, and it has become one of the most important factors in the labor situation.

Nevertheless, the majority of farmers still depend upon picking up men on the streets of neighboring towns rather than upon placing orders with their county agents or other local representatives of the employment service, and many harvest hands rely upon picking up a job by meeting farmers on the streets of country towns. Realizing this fact, the employment service disseminates information which advises harvesters of the progress of the harvest in the counties being cut at the particular time. Daily bulletins are posted in public places and furnished to the press, which direct harvest hands to the areas where their services are needed. Tens of thousands of harvest hands whose names are never recorded in the employment offices are nevertheless directed to the farmers by the employment service in cooperation with the agricultural officials of the wheat states and counties.

We are only just beginning to learn what we ought to know about farm labor, but already some of the solutions to the complex problem are clearly indicated. Employment agencies and farm owners must contribute to these solutions. They cannot be solved by either group alone or by outside factors.

Everywhere the seasonal nature of farm

(Continued on page 44)

The Straining for New Customers

By ARTHUR W. LOASBY
President, The Equitable Trust Company of New York

Suggestive of the Unsound Principles of the Tipping System. Though Banks Render Many New Services They Receive Less from Depositors Than They Did Thirty Years Ago. Twice as Much in Interest to Depositors as in Dividends to Stockholders.

THE problems of the banks are identical with the problems of the merchants. We have not had a great deal of respect for the business ability of customers who did not know exactly their production costs, yet, we who so stress the importance of knowing overhead and advocate the science of cost accounting in business have been slow in applying the principle in our own sphere.

Our banks were all small once, like the one man shops of our early business days. You can look back a quarter of a century and find the combined resources of all the trust companies in the city and state of New York far less than the resources of a single New York trust company today. Bankers were at that time in the position of the old time merchants. Overhead was a clearly discernible item then, and it caused little concern.

The banks were merely money lenders who looked at a customer's statement and knew at a glance whether his account was acceptable and whether he was entitled to a loan. But our banks have developed as American business has developed, and in keeping abreast of the needs of our great industrial corporations, our railroads and our utilities, we have grown from mere money lenders into vast public spirited institutions, highly organized, employing high priced specialists, occupying highly expensive quarters in the centers of trade, and in a hundred ways broadening and improving our service to meet the more exacting demands of present day industrial, commercial and social life.

We are constantly telling our customers how broad and comprehensive our service is, but we have been saying nothing about the added expense of maintaining these services. The customer has grown accustomed to having unusual things done for him by banks, and he feels that a fair balance with his bank is ample compensation for what his bank in turn does for him.

Like the Tipping System

I SOMETIMES feel that this straining for new customers against formidable competition and holding out as an inducement some extra degree of service has in it some of the unsound principles of the tipping system, whereby one party gained a temporary advantage by giving a little more than his fellows and consequently established a dangerous precedent which later became a general practice.

Unquestionably, during the past quarter of a century banks have been adding heavily to overhead, without much regard for the opposite side of the ledger.

It is difficult to determine how much extra service has been made necessary by the demands of modern business and how much has been added in an effort to outstrip our neighbor banks—but a careful checkup of the many departments in my own institution fails to unearth any department whose functions could be eliminated without in some way curtailing our usefulness to our customers.

We have been busily engaged in building up gigantic resources. We have been keeping step with the great business expansion program, but we have made no effort to tell business men what this extra banking service has cost us.

What has been the result of our general lack of regard for the cost of doing business? Those of us who commenced to analyze the debit and credit sides of the ledger following the reaction of 1921 suddenly were confronted with a startling situation. Notwithstanding the fact that banks are now giving a variety of services unheard of a few years ago, they are getting less in return from the depositor than they did thirty years ago when they were mere lenders of money. This statement is by no means theoretical. We have only to analyze our earnings statements today in comparison with those of thirty years ago, to find that a radical change has taken place in the ratio of net to gross earnings in banks. Net earnings have gradually decreased from one-third of gross earnings to approximately one-quarter.

Twice as Much to Depositors

ANOTHER fact stands out with equal clarity. It is this: That our operating expenses have not increased if we deduct from them the amount we pay in interest to our depositors. It is interesting to note also that we now pay out of our profits about twice as much to depositors in interest on their deposits as we pay to our stockholders in dividends.

It has a dangerous tendency to force many banks into investments of a non-liquid character which may lead eventually to serious losses through depreciation. Another important item of operating cost is the collection of out-of-town items. Unless a bank charges its depositors a sufficient amount of interest the handling of out-of-town items becomes extremely expensive.

The activity of an account also plays an important part in the final analysis of costs. While there are other factors which must be considered, the foregoing items, I believe, are of prime importance.

It is not an easy task to refuse the account of a prospective depositor or tell an old depositor that his account is not profitable and must be placed upon a different basis or withdrawn. But, if we do know our overhead and after an analysis of an account find it unprofitable, we have a perfectly legitimate reason for approaching any business man whose account is unprofitable, even though his average balance has been a substantial one, providing we take pains to acquaint the depositor with all of the facts and show him just why his account is costing the bank money rather than showing a fair profit.

Depositors invariably feel that any account is profitable to a bank, and I think that it is more than 50 per cent the banker's fault that they do. Many experienced bank executives themselves believe that a fair average balance invariably signifies a profitable account, yet the reverse is often the case. Bank officials have a weakness for judging deposit accounts by their size rather than by the sum transferred to profit or loss as a result of carrying the account in the bank. I venture to say that many large deposit accounts ultimately do not prove as profitable as some of the smaller ones, because of the higher rates of interest paid, the activity of the accounts, and the special service rendered.

The Customer's Antagonism

IN analyzing our accounts, I do not think we need have misgivings regarding the possible antagonism of our depositors. We are simply allowing ourselves the same privilege accorded the manufacturer or merchant who figures his overhead as a part of his selling expense. However, we must convince our customers of our fairness and sincerity in conducting our account analysis.

The analysis or cost accounting department in my bank operates on the recognized principle that each item entered on our books entails additional overhead. The size of a man's average balance in relation to the number of items handled for him, while very important, is only one of a number of factors which govern our final decision regarding the status of his business. For example, there are to be considered also the profits on other accounts carried by the depositor in his name, the profit on business carried in other departments, the profit on accounts in-

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The Quest for Stable Money

By LEWIS ALEXANDER

Invasion of Disputed Field of Price Stabilization is Planned by Group of Financiers and Scientists to See if a More Constant Yardstick of Value Can Be Found. Credit Control, Index Numbered Dollars and Price Fixing Seen as Means of Stability.

A GROUP of crusading financiers and scientists is preparing to invade what has hitherto been a sort of No Man's Land in economics. It is going to invade the disputed field of price stabilization to see if means can not be found of assuring the thrifty persons, who are induced to save their money, that they will not have to stand by helplessly later and watch their savings drained of their purchasing power through constant changes in the level of prices.

They want to find if there is not a more constant yardstick of money value than the dollar and gold. They are thus seeking to discover how such changes as the community may determine to make in the distribution of wealth, in wages, in rates of interest and in other directions, shall not be thwarted and neutralized by changes in the level of prices, whose effect can not be reckoned in advance.

While the desirability of stable money has been widely admitted everywhere for long years past it is rather surprising to hear that our leading economists admit it to be a "painful fact" that "thus far there is no agreement even among experts or scientific leaders in any country with regard to the best—or, indeed, with reference to any recognized method of attaining it."

The authority for this "painful admission" is Dr. H. Parker Willis, who is one of the leaders in the group that recently organized the Stable Money Association to undertake a study to determine how more stable prices can be brought about. In the past, similar efforts have been started by scholarly inquirers to reach the same objective but these movements have never reached the goals set. Dr. Willis, who is professor of banking at Columbia, the active editor of a great commercial daily newspaper and the author of a number of books covering nearly every phase of banking, was elected president of the association and will direct the inquiry. The first step will be taken with sending out a questionnaire to establish if there is not a substantial agreement on the basic facts and principles.

Evils of Unstable Money

WHEN prices fluctuate, the element of uncertainty comes into trade and commerce. It requires more capital to do business, for a larger margin must be allowed as protection from losses due to the shifting of prices of things that enter into the finished products.

The incentive to save is less because a dollar saved may be worth less a few years hence than when it was laid aside. The dollar of 1898 would buy twice as much as the dollar of 1925.

A security, purchased when the buying power of the dollar was relatively high, depreciates in value because the rate of interest it bears is lower than the depreciated dollar commands for hire—for the dollar of today will do less work.

Those who live upon the income from invested funds, are discouraged because, while the yield may be the same in the unit of dollars, they find the return will buy far less of the things that are needed for clothing, shelter and food.

When prices in one great industry get out of line with the general price level, great may be the suffering while the maladjustment is being righted—as witness the plight of the American farmer during the years of the post-war depression when he had to pay more for everything he bought and received less for everything he sold.

Legion are the cases that might be cited to show the ill effects that follow from unstable prices. It is the objective of the association to find how greater steadiness in money can be obtained to remedy these ills.

Finding Common Ground

"WE want to find out if there is any common ground," Dr. Willis said, in discussing the movement. "If twenty economists or bankers were asked to define 'deflation,' we might get twenty different answers. On the other hand, if we asked, 'Is the gold standard ideal?' we would doubtless receive a unanimous response that it was, at best, imperfect. By questioning those who are best qualified as to what is meant by 'normal,' 'inflation' and other basic things, perhaps we can find out to what extent there is an agreement on some ways of approaching the subject of stabilization of prices.

"On all sides, there is a unanimity of opinion that a greater steadiness in money or prices is desirable. But, as to the ways and means by which this end can be obtained, there is a woeful lack of agreement. What we are interested in discovering is how this greater stability may be promoted.

"Considering the problem quite generally, there are three ways by which it is claimed stable prices can be maintained:

"The first, and the largest group, asserts that prices can be helped in stability by scientific credit control. This involves changes in the rediscount rates and open market operations. The most obvious difficulty in scientific credit control, apart from the knowledge needed to conduct these operations, is the inability of those controlling it to exclude political and other influences from the sphere of operations.

Stabilized Dollar Plan

"THE second group thinks that price stabilization may be obtained by changing the composition of the circulating medium by introducing a new kind of money along the lines, for instance, of the Fisher stabilized dollar that is adjusted as its purchasing power changes. Instead of the dollar having a fixed and unyielding value in gold, the Treasury would, according to his view, stand ready to redeem the dollar in an amount of gold representing its real purchasing power, as determined by the index numbers. If its purchasing power should drop, the Treasury would pay out less gold. If its purchasing power should rise, the Treasury would be called on to pay out more gold. This brings up a most pertinent question—should there be a great rise in the purchasing power of the dollar where would the Treasury get the gold?

"Of recent years, there has been agitation on the part of a third group for price stabilization through governmental action—through price fixing. Happily, this group is in the minority and it cannot be believed that such a plan would make any substantial headway among thinking people."

While it has not been an unusual occurrence in the past for a group of economists or financiers to form an organization to promote some one "sound money" plan, the founders of this association have bound themselves to avoid anything of this kind.

"Stabilization of the price level, if honestly and sincerely sought, is not a reform which is likely to be advocated by any of the 'special interests' that are ordinarily credited with attempting to influence our monetary and banking laws," Dr. Willis states. "On the other hand, there is nothing in the proposal to attract the attention of that element which is usually ready to attack existing conditions or to look for a basis of 'reform' proposals. Our undertaking is essentially of a scientific character. Money stabilization is practically only a way of assuring the community that such changes in the distribution of wealth, in wages, in rates of interest or in such other directions as society may determine to make shall be given a fair opportunity of trial and shall not be thwarted and neutralized by changes in the level of prices, whose effect cannot be reckoned upon in advance.

"This result stated in cold blood appears simple and is particularly desirable from the standpoint of all those, who believe that

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No Longer a Nation but an Idea

By REV. EDMUND A. WALSH, S. J., PH. D.
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That is Why the United States Can Not Recognize Russia. Ten Civic Disabilities Which Would Be Embarrassing to American Enterprise and Dangerous to Life if New Relations Were Established. The Distinction Between the Government and the People.

IT is an easy error to consider the Bolsheviks as simply barbarians and so dismiss their programme with a contemptuous gesture. Certainly the rank and file of their followers have been guilty of inhuman excesses and unpardonable bloodshed. But the authorities ruling Russia today are not barbarians. They are the fruits of barbarian practices in government extending through three centuries. Russia survived the barbarians from without—the Mongolian conquerors under Ghengis Khan. It was the barbarian within that destroyed her—imperious autocrats in high places and petty tyrants in low places, more concerned with the perpetuation of dynasties and the conquest of new principalities than with the happiness, the natural rights and development of the hordes under their control. Human life and human rights were always cheap in the East and still are in Russia today, a relic doubtless and a blending of two influences that cut themselves deep into the character of the ruling classes—Asiatic callousness and Byzantine haughtiness.

The repression of natural rights and fundamental liberties in Imperial Russia made the monarchy the outstanding political anachronism of modern times.

Consequently, in my opinion—and I have spent the last three years in close and continuous study of this problem—the defects of the czaristic regime, from the point of view of human liberty, justified a dozen revolutions. But there is need of clear thinking at this point. The revolution which freed Russia is not the revolution which at present is dominant in Russia!

The Czar's Overthrow

THE revolution which overthrew the tyranny of the Czar was welcomed by the entire human race and was very aptly characterized by President Wilson, when on April 2, 1917, in his speech to Congress declaring war against the German Empire, he used these words:

"Russia was known by those who know it best to have been always democratic at heart in all the vital habits of her thought, in all the intimate relationships of her people that spoke their natural instinct and their habitual attitude towards life. Here is a 'fit' partner for a league of honor."

I don't know of any phrase that has ever summed it up better than that—"In the Russian people we have a fitting partner for a perpetual league of honor." And let it never be forgotten in these discussions that the first government to accord full "de jure" recognition to revolutionary Russia was the United States of America! It is, therefore, beside the question, and evidences a deplorable lack of historical perspective to be forever reading us lessons as to our duties and the traditional American attitude towards revolutionary governments!

The Accolade of Friendship

MR. FRANCIS, the American Ambassador, in advance of the French Ambassador, before the British Ambassador, presented himself to free Russia and gave her the accolade of friendship in the name of the United States of America. And it is sometimes forgotten in these discussions that even when the Bolshevists took power, when their Congress had gathered for one of their early sessions, the United States of America again held out the hand of friendship, now to Bolshevik Russia. On March 11, 1918, President Wilson sent the following note to the Soviet Congress then meeting in Moscow—not to the first revolutionary government which had fallen—but to the victorious Bolsheviks:

"May I not take advantage of the meeting of the Congress of the Soviets to express the sincerest sympathy which the people of the United States feel for the Russian people at this moment when the German power has been thrust in to interrupt and turn back the whole struggle for freedom and substitute the wishes of Germany for the purposes of the people of Russia. Although the Government of the United States is, unhappily, not now in a position to render the direct and effective aid it would wish to render, I beg to assure the people of Russia, through the Congress (*of Soviets*) that it will avail itself of every opportunity to secure for Russia once more complete sovereignty and independence in her own affairs, and full restoration to her great role in the life of Europe and the modern world. The whole heart of the people of the United States is with the people of Russia in the attempt to free themselves forever from an autocratic government and become the masters of their own life."

Was there ever a franker, a more generous, a more American holding out of the hand of friendship? The Soviet Congress—not the Third International, not the Communist party, but the Fourth All-Russian Congress of Soviets—replied as follows:

"The Russian Socialist Federated Republic of Soviets takes advantage of President Wilson's communication to express to all peoples perishing and suffering from the horrors of an imperialistic war its warm sympathy and firm belief that the happy time is not far distant when the laboring masses of all countries will throw off the yoke of capitalism and will establish a socialistic state of society which alone is capable of securing just and lasting peace, as well as the culture and well-being of all laboring people."

Mr. Zinoviev, one of the seven rulers of Russia, remarked on that occasion:

"We slapped the President of the United States in the face."

Shall We Recognize Russia?

IT seems to me very inconsistent to lose sight of the fact that the hand of friendship was thus held out twice, once to the Kerensky government, and later to the Congress of Soviets. It was refused on the second occasion by this insulting note. But as time, which heals all wounds, rolls on, this page might be considered as closed, bringing us face to face with the practical problem involved in de jure recognition of Soviet Russia. Shall this country recognize the Soviet Union and thus admit Bolshevik emissaries on a basis of absolute equality?

Now, despite the assurances of Red Apologists or "pink" dilettantes, there is no denying that Moscow has a definite, elaborate programme designed to overthrow the American as well as every other form of parliamentary government. I am far

A Brilliant Picture

HERE is a brilliant picture of Russia as it is today—a picture with which every banker, both as a banker and as an American citizen, should be familiar, for the Russian question sooner or later presents itself in some form to every bank.

Russia, as the writer, Rev. Edmund A. Walsh of the School of Foreign Service, of Georgetown University, Washington, D. C., points out, is no longer a nation but an idea. We think of Russia as a nation with geographical limitations while as a matter of fact "Russia" in the aspirations of the dominating group eventually is to include the whole world and to overthrow all governments.

The United States can recognize a nation but it can not recognize a merely revolutionary idea, especially as the idea contemplates the overthrow of our own government.

from being an alarmist. One may be a realist without being a panic-stricken alarmist. Moscow's programme does not terrify me. But I regard it as an international impertinence.

The fair presentation of the problem should be dispassionate, neither pro-Bolshevik nor anti-Bolshevik. It should be American! And being American, it must of necessity seek its preambles and its postulates in purely American sources, standing fairly and squarely on the Declaration of Independence, the Constitution of the United States, the decisions of the Supreme Court and the traditional policy of the Federal Government in the recognition of newly-constituted states.

The Depths Untouched

THIS objective, purely American attitude, becomes mandatory when one appraises the average arguments for recognition that we are receiving in growing numbers through the mail and otherwise. They show too often a dangerous confusion of issues, or better, a substitution of non-essentials for essentials. For minds untrained in analysis, it is becoming increasingly difficult to distinguish between basic principles of a sound political science and certain superficial considerations of a purely business and commercial character. It is absolutely beside the mark for those entrusted with the destinies of the American commonwealth to be bombarded with evidence, either from the floor of Congress or from the lecture platform, purporting to establish the great trade possibilities in Russia, or the practical failure of Communism, or the new economic policy, or the attempts to establish a public school system, or balance the budget and stabilize the currency! I am fully aware, as Alfred Dennis remarks in his new book on *"Soviet Foreign Relations,"* that politics and economics are but two sides of the same coin; but I believe it a bounden duty to repeat, and keep on repeating, that these particular signs of a return to right reason still leave the depths of the Russian problem untouched. I can well conceive a state in which none of these indications of peace and civilization existed and which could, nevertheless, merit de jure recognition. And, vice versa, can we not all conceive a state in which all known evidences of material progress flourished, but which could not be recognized with honor by the United States?

An entirely new set of conditions in the economic, political, social and legal domains has been created by the Soviet Government—not by the United States—which render the old criteria of recognition entirely inadequate. Hitherto the existence and inviolability of the natural law and the law of nations were among the preambles ordinarily assumed and reverently acknowledged by the power seeking recognition, so that the power according recognition has been enabled to confine its inquiries to the political question of legitimacy—or to the de facto possession of the organs of government, according to the traditional recognition policy of the recognizing state. But in the present case we have the strange anomaly of a government seeking, officially, admission into the consortium of civilized nations and at the same time proclaiming publicly that not only does it repudiate the accepted usages that have made organized society possible among men, but that it intends to destroy the entire fabric of existing society, displacing all our cherished institutions, art, culture, laws and the Constitution itself, in order to reconstruct all things on a socialistic basis! The force of international and municipal law is scorned as a bourgeois creation, and evident truths of the natural law are swept into the discard in a deification of Karl Marx and Nikolai Lenine.

Bolsheviks Admit It

IT would be superfluous to prove these assertions, as the Bolsheviks will, I think, admit them all and agree that I have not overstated their aims; and we who have lived among them, not twenty days but twenty months, have heard this programme reiterated with amazing similarity of phraseology from Petrograd and Moscow to the smallest hamlet in the Crimea and the Kuban, and from the Polish frontier to the Ural mountains.

Then, too, there is the confirmation furnished by the new Soviet Constitution which, obviously, will be accepted as the authentic expression of Soviet ideals. A close study of this remarkable document will justify my contention that in the case of Soviet Russia the old landmarks have disappeared and can no longer serve us in our recognition policy. Hitherto the United States recognized a definite geographic and political entity known as Latvia, as Lithuania, as Poland, as Esthonia, as Czecho-Slovakia, as Greece or Mexico. The recognizing government knew precisely the territorial boundaries of the new state and recognized the existing government as the de jure ruler of a given territory. The constitutions of these countries claimed no jurisdiction either actual or potential beyond their own territorial frontiers or colonial possessions, if any such existed.

In December, 1923, just about the time I left Russia, the new constitution was adopted, giving an entirely new aspect to this question. There is no longer any "Russia" that you can recognize. "Russia" no longer exists as a treaty-making power. You can no longer make a treaty with Russia any more than you can with the State of New York. Old Russia is now one state in a new union. The new union is composed of six states: (1) old Russia—the R. S. F. S. R.; (2) the Ukraine, (3) White Russia, (4) The Trans-Caucasian Republics (which include three regions, viz., Armenia, Georgia and Azerbajain), (5) The Mid-Asiatic republics of Uzbekistan and Turkmenistan and last of all (6) The Moldavian Republic, a little territory recently set up over towards the Roumanian frontier for strategic reasons.

The opening paragraph of the constitution which erected these states, reads as follows: "Since the formation of the Soviet Republics, the world has become divided into two camps, that of capitalism and that of socialism." It then continues and says: "the very structure of the Soviet power, which is international in its class character, calls the toiling masses of the Soviet Republics towards a unity of one socialist family." Please notice that boundary limits are done away with. Nationality is destroyed. A line is drawn at right angles through humanity—"capitalism and socialism," and that it all there is to it. These first states which have joined (whether they wanted to or not), in the last words of this paragraph which I now quote, "form a decisive step towards the union of the toilers of all countries into one World Soviet Socialist Republic."

To Spread to the Whole World

HERE is a formal statement of the avowed leaders of the Soviet Government (not of mere members of the Communist party) proclaiming officially that the Soviet system begun in Russia is to spread to the entire world. They direct all their efforts, their entire external policy, to that purpose. I would not enter into a discussion with a man who denied that, because that is denying the sun in the heavens.

Nothing is clearer than this world-wide programme.

Tchitcherine, People's Commissar for Foreign Affairs, official exponent of the foreign policy of the Union, frankly avowed on November 6, 1919, that:

> The November Revolution, the first act of the world social revolution, at once placed the Russian Soviet Government at the front of the revolutionary movement of the world as the herald and inspiration of the proletarian revolution."

That the role of the government in fomenting revolution abroad, even in friendly countries, had undergone no change was further shown by Trotsky nearly five years later, in a notable address delivered on May 5, 1924. On that occasion the People's Commissar for War enthused the students of the Moscow Military Academy by his presentation of the theory and practice of civil war in foreign countries. In developing the means for fomenting discord in other lands, the alter ego of Nikolai Lenine emphasized the important role to be assigned to Bolshevik representatives outside Russia as well as to all agents enjoying diplomatic immunity. They were to prepare the ground for armed revolt by intensifying class consciousness among the disaffected natives of the countries to which they were accredited. "Our Ambassadors," said Trotsky, "Consuls, military attaches and so on must supply machinery for new material."

In the field of applied diplomacy, Krassin, Bolshevik Ambassador to France, one of the most capable of all Soviet leaders, leaves no doubt as to the cardinal principle of Soviet foreign policy. During the Twelfth Congress of the Communist Party in April, 1923, he explained that:

> "The basic tasks of the foreign policy of the Soviet power are, first to make it easy for the world revolution in securing the maximum conditions guaranteeing peace (for us), i.e., recognition de jure and economic aid, loans, credits, etc. The world revolution follows a laborious path, we have no miraculous means of making things easy for it. The most efficacious way to smoothe the path of the world revolution and aid it is to strengthen the Soviet State . . . "

Not a Nation but an Idea

THE inclusion of the first four states in the new Union is interpreted, consequently, in the language of the Constitu-

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The Movement of State Banks In Texas Into the National System

By BRUCE DAVENPORT

Seeking Relief from Burdens Imposed by Guaranty of Deposits Law, 113 State Banks Seek Conversion into National Banks. Texas Amends Guaranty Law to Permit State Banks to Transfer to Bond Plan. Ranks Second in Number of National Banks.

TEXAS is witnessing an extensive movement of its state banks into the national banking system. Since the first of the present year, more than one-ninth of the banks holding state charters have sought the right of converting into national banks. The Comptroller of the Currency at Washington early in May had approved the applications of fifty-one state banks to come within the Federal fold and was considering similar requests from sixty-two other Texas institutions.

The movement has been spurred along by the discontent of a large section of the state banks with the Texas law providing for the guaranty of bank deposits. By taking out a national bank charter, a bank could escape from the payment of assessments levied by the guaranty system to make good the deposits of defunct banks. Since the guaranty law went into force in Texas, the loss to the members of the system has amounted to around $9,000,000, so the burden of providing these funds has not fallen lightly upon some of the state banks.

Naturally the levying of these assessments led to unrest on the part of the banks, and there was widespread agitation either for the repeal of the guaranty act or a change in the law to give relief. In February, after a number of state banks had withdrawn from the system and had taken out national charters, the Texas legislature amended the guaranty law. It permitted state banks to shift from the guaranty fund into the bond security plan, and so modified the existing requirements for qualifying under the bond plan as to make it far more acceptable than to remain in the guaranty fund.

This change afforded the banks, which had been chafing under guaranty fund assessments, a long looked for opportunity to withdraw from the fund. With their retirement state banks, which might otherwise have been satisfied to remain subject to the guaranty fund, realized that each withdrawal increased the possible pro rata assessments that any future suspension might bring. This spurred them to leave the guaranty fund. Several hundred state banks had shifted by the first of June. Even after the amendment a number of state banks sought national charters because their officers were reluctant, despite the less rigid requirements in connection with the bond plan, to impose upon their directors any further liability in executing a bond to secure deposits than they were under as stockholders of a bank. The next few months are expected to show how far the movement of state banks into the national system will go. Most of the banks which have converted are country banks with capitalization ranging from $25,000 to $125,000.

The Two Ways

WHEN Texas embraced the idea of guaranty of bank deposits, all of the state chartered banks were required to adopt it. There were two ways in which a bank could provide this guaranty—either by joining the Depositor's Guaranty Fund or the Guaranty Bond Security system. The law gave the banks their choice of the two methods, but required them to notify the authorities of their decision before the guaranty system became the law of Texas. However, once this choice was made, there was no turning back. A bank could not elect to participate as a member of the guaranty fund and then shift to the bond plan. At the outset the vast majority of the state banks chose the fund, for it seemed the cheapest and best way to guarantee the safety of bank deposits.

The original law provided that a bank should make an initial contribution of 1 per cent of its average daily deposits, exclusive of public or saving deposits, and ¼ of 1 per cent annually until the guaranty fund should amount to $2,000,000. In case of depletion, the bank would be liable to an assessment of a maximum of 2 per cent of the daily average deposits to provide the necessary funds. During the first ten years of its operation, lacking a single month, the guaranty fund banks were called upon to pay only $835,000 for the protection of depositors in defunct banks, and later about $500,000 of this was returned to the fund through the liquidation of the closed banks. Since 1920 the losses have mounted upward. Thirty state banks went under during the period from Nov. 1, 1920, to Nov. 1, 1921. A number of banks went under during the depression of 1921, so, early in 1921, it was considered advisable to raise the maximum fund to $5,000,000. Authority to require the payment of 2 per cent of the daily average deposits to restore the fund to this figure at any time it fell below this level was given to the state banking board; a later amendment provided that only non-interest-bearing and unsecured deposits should be protected by the guaranty fund.

Governor Ferguson, Texas, woman executive who signed the bill amending the Guaranty Law

The Assessments Grow

NATURALLY, with the collapse of banks in the guaranty system, the assessments levied against the state banks grew. In 1921 the rate was about 1¾ per cent and 1¼ per cent in 1922. The following year it ran over 1 per cent and during 1924 there was still another increase. However, there has never been a year when the maximum assessment was levied. As might have been expected, the well managed guaranty fund banks grew restive and dissatisfied as, year after year, they were called on to make contributions to meet the losses of the incompetently managed banks. The agitation for the repeal of the guaranty law was taken up by some of the most prominent bankers in Texas, who pointed to the enormous losses of the few past years and declared that it had proved to be a failure. There were others who took the middle ground, maintaining that it should be optional with a bank whether it operated under the system or not. The general sentiment was that relief should be granted.

Some of the larger state banks withdrew from the state system and took out na-

tional charters. Opponents of the guaranty system insisted that, while one of the arguments given for the continuance of guaranty laws had been the claim that their repeal would result in the withdrawal of deposits from the banks, they pointed out that the banks which had nationalized suffered no loss in the volume of their deposits, notwithstanding the fact that the depositors in these nationalized banks no longer could obtain a state guaranty of their deposits. On the other hand, the volume of their deposits showed a substantial gain. With the withdrawal of the larger banks from the guaranty fund, it was clear that the smaller banks would have to stand a larger pro rata part of the loss. This outlook was not particularly cheering, in view of the experiences of the past few years.

The most ready avenue of escape was conversion from a state bank into a national. This was not such an easy course for many banks to pursue, because Texas has a higher individual borrowing limit than the national bank act permits, and Texas is more liberal with regard to loans on real estate. Before they could be admitted to the Federal System, the state banks would have to get in such a condition as would be required by the Comptroller's office. To assist the banks that were desirous of joining the Federal System, Comptroller McIntosh and J. W. Pole, the chief national bank examiner, journeyed from Washington to Texas to get a first-hand impression of the situation and to pass upon the assets and liabilities of the applicant banks. It takes some time to conduct an investigation and an appraisal to determine the eligibility of any bank for a Federal charter.

The Present Texas Law

UNDER the amendment adopted last February a state bank may transfer to the bond plan and withdraw from the guaranty fund by filing a surety bond equal to its capital stock. If deposits are six times greater than the capital, a larger bond must be given. Individual sureties or those written by the surety companies may be given. It is understood that a considerable number of banks have made applications to change to the bond plan. The Commissioner of Banking, Charles O. Austin, has made it clear, however, that only those banks which are in good condition will be permitted to transfer. One question that has been raised

Francis H. Welch, the newly elected president of the Texas Bankers Association

is whether or not a present guaranty fund bank can be held liable for deposits in defunct institutions.

The passage of the amendment was regarded by some bankers as foreshadowing the end of the guaranty fund system. Commissioner Austin, however, stated that the fund was in "a very substantial and satisfactory condition," as it exceeded $4,000,000, and he added that the volume of deposits subject to assessment was ample to take care of the situation even if more failures than might reasonably be expected should occur. He made the reassuring statement that all banks about which the department had any concern had been closed already and were in the process of liquidation. The Commissioner observed that most of the recent failures were sustained by banks which had been known to be insolvent, but which appeared to have been kept open in the hope that they would work out their own salvation.

The Commissioner made known that one of the strong surety companies was seeking the business of furnishing the surety bonds at a maximum premium of 2 per cent on the capital and as low as 1½ per cent. He expressed the opinion, however, that the companies might write surety bonds on good banks at ½ of 1 per cent and still make a good profit. It is his judgment that next to incompetency of management, the high rates of interest that Texas banks paid on public deposits has been the greatest source of bank trouble. Some of them paid as high as 8 per cent, he revealed.

It is still too early to say what the outcome will be in Texas. There is pending before the Supreme Court in that state a proceeding in mandamus to compel the banking commissioner to accept United States bonds, municipal bonds or school bonds in lieu of personal or surety bonds—the securities to be the property of and part of the assets of the depositing bank. Should the court rule in favor of the bank, it is likely that the transfer of banks from the guaranty fund to the bond plan will be speeded up, as the cost of qualifying will be lessened.

The Commissioner feels that there is no need to be uneasy.

"Most of the state banks are in a stronger position than ever before in their history, having large cash reserves and large amounts of commercial paper and government securities in their files," he is quoted as saying in a recent public statement. "In this respect the outlook could not be brighter and, in respect to the few concerns which have been permitted by incompetent management to get into bad condition, I have strong hopes that most of them, if not all of them, can be reorganized or consolidated and the guaranty fund escape any more losses of consequence."

For many years the largest banks in Texas have been national banks. This is due, in a measure, to the fact that the national banks, along with the private banks, were the pioneers in the Lone Star State. It was not until 1904 that state banks were authorized. While there have been failures of national banks in Texas during the past few years, the public has a high regard for the Federally chartered banks. There were 572 national banks with total resources of $999,981,000 that carried demand deposits amounting to $477,842,000 at the close of business on last Dec. 31.

Texas is outranked by only one state—Ohio—in the number of national banks within its borders. Should the present movement continue at its present rate of growth, it might soon have more Federally chartered banks than any other state.

New Books

PRINCIPLES OF INVESTMENT, by A. M. Sakolski. 505 pages. $4.50. The Ronald Press Co., New York.

In this volume the author, who is a lecturer on investments at New York University, has, to quote his own language, "endeavored, on the basis of many years' experience, both as an investment analyst and as an instructor on the subject, to present in non-technical terms the principles which all investors must master." His aim has been to present the underlying economic theory as it is worked out in actual practice of investment institutions today.

REAL ESTATE HAND BOOK. Blake Snyder, Editor. 724 pages. $5. McGraw-Hill Book Company, New York City.

This is a book of principles, methods and data of modern real estate practice for the reference use of busy real estate men and for the guidance of property owners and students of real estate generally.

The material has been contributed by a staff of experienced real estate men. It is representative of actual practice.

It covers real estate economics, appraisals, values, handling and managing real estate, special purpose real estate, store locations, renting, assessments and taxation, insurance, mortgages, building construction management, selling property and real estate law.

THE SELECTION AND CARE OF SOUND INVESTMENTS. By Arthur Hobart Herschel, formerly special agent in the Bureau of Corporations. 373 pages. The H. W. Wilson Company, New York.

This book is written primarily from the viewpoint of the investor, and investment principles are emphasized more than the securities themselves.

Service at a Loss Does Not Gain Customers' Good Will

Banks Should Give Attention to Quality and Earning Power of Accounts Rather than Volume and Numbers. Deductions Based on Experience of 356 Trust Companies and Banks in New York State Outside of Metropolitan District. Customers Are Willing.

"THE time has come for banks to turn their attention to quality and earning power of their accounts rather than to volume and numbers. The amount of net profit which the bank can realize from a given account is as important a consideration as is the size of the balance. Volume without reasonable profit means increased expenses and decreased earnings, and no banker can long continue on these lines and satisfy his stockholders or himself."

In the foregoing words Arthur D. White, president of the Rome, N. Y., Trust Company, summarized a report which he made to the New York State Bankers Association as chairman of a committee appointed to investigate unremunerative services rendered by trust companies. His conclusions were based on replies received from 356 trust companies, national banks and state banks outside of the metropolitan district. The returns were tabulated in classes, based on the population of the cities and villages in which the reporting banks were located.

In Small Towns

THE first division was of institutions in places having 2000 population or less.

"Out of 112 banks reporting in this class," the investigation revealed, "six require initial deposits in the usual amount of $50, and five make a service charge of 50 cents per month on balances of $50, divided between average and minimum balances. In reply to the question as to their opinion of a service charge, 58½ per cent approve of a charge; 17 per cent do not approve; 24½ per cent express no opinion.

"Ninety-four per cent of the banks in this class would make a charge provided the other banks would, and 6 per cent would not, even though the others did so. One bank replied as follows, 'We make all service free, sort of a charitable institution.' Another reply was, 'We have a loss on at least 40 per cent of our accounts.' A bank with average deposits of $100,000 found that 200 of their depositors were carrying but $8,000 of the total deposits. They adopted a service charge, have had no trouble, find it highly desirable and would not consider giving it up.

"The second division was in population of 2000 to 5000. Seventy-six banks reported in this class, 18 per cent of whom require minimum deposits of $25 to $200 to open an account, but only 22 per cent requiring an initial deposit, however, make any effort to see that the initial amount is maintained. Seven per cent make service charges of 50 cents on minimum balances of $50.

"Seventy per cent of these banks approve a service charge; 8 per cent disapprove; 22 per cent express no opinion. Of these 76 banks 84 per cent would make a service charge if the others would, and 2½ per cent would not.

"One of the two banks in a village of less than 5000 population requires an initial deposit of $100, and makes a charge of $1 per month if the balance falls below that amount. The officers have had practically no trouble with the charge, although the other bank in that village does not require any stated amount to open an account, nor does it make a service charge. The bank making the charge has the larger amount of deposits and also pays larger dividends. Another small bank says, 'We found that we were carrying over 50 per cent of our accounts at a loss, and are about to adopt a fluctuating service charge.' One banker, apparently having in mind the often used theory that the small account may some day be a big one, wrote as follows, 'Some banks feel that small accounts develop into large ones. I have not found this to be so in my 27 years of experience. The service charge is just, and the bank should have at least the cost of its service.' This bank found under analysis that 41.8 per cent of their accounts were averaging under $25, 10.8 per cent between $25 and $50, and 11 per cent between $50 and $100. In other words, out of total deposits of $300,000, 63.6 per cent of their accounts averaged less than $100."

In Small Cities

OF places having a population of 5000 to 20,000, Mr. White found:

"Eighty-three banks reported in this class, 30 per cent of which require from $50 to $200 as an initial deposit, but only 40 per cent of these make any effort to see that the required initial amount is maintained. A service charge, about equally divided between average and minimum balances, is made by 9 per cent of these banks, the usual charge being fifty cents on $50 balances and $1 on $100 balances. Collateral business or affiliations enter into the question of making the charge in all cases. Either no trouble was experienced, or of so slight a nature as to be of no importance. Seventy per cent of these banks approve of a charge; 10 per cent do not approve; 20 per cent did not reply. In this class 90 per cent of the banks would make a charge provided the others would, and 10 per cent would not.

"In a village of 5000 population a banker writes, 'We sent out a form letter to all of our depositors informing them that the service charge would be made if the required balances were not maintained. No trouble has been experienced, and in our opinion it is the only logical way out of the difficulty of carrying small accounts.' Another replied, 'We feel that the time has come when the banker should differentiate between the profitable and unprofitable account, and we find that no fair-minded person objects. We are making a service charge and, while the other banks in our city are not now, they are planning to adopt it.'

"Of the 42 banks reporting in places having a population of 20,000 to 50,000, 30 per cent require minimum deposits ranging from $25 to $200 to open an account, 60 per cent of which, however, make no effort to maintain the required initial amount. Twenty per cent of this class make a service charge on average balances running from 50 cents to $1 per $100 balance. Collateral business is considered in all cases in making the charge, and preliminary advertising was used in most cases. No trouble was experienced by any of the banks. Eighty per cent of the banks approve a charge; 10 per cent disapprove; 10 per cent did not answer. Ninety per cent would make a service charge provided the others would, and 10 per cent would not.

In Larger Centers

"FORTY-TWO out of 43 banks reporting in places having a population of 50,000 and over require initial deposits of 50 $50 or more and 40 per cent of them require that the balances be maintained at the initial amount. Of these banks 63 per cent make service charges about equally divided between average and minimum balances and activity and non-activity of the account. In practically all cases collateral business is considered in making the charge, and preliminary advertising was used in about 50 per cent of the cases. Over 95 per cent report no trouble of any kind in connection with the charge. A recapitulation of the 356 replies shows the following results: 73 per cent approve of the service charge; 8 per cent do not approve; 19 per cent did not answer.

"In the cases of banks now making the charge, we find that some preliminary advertising, or form letters, were used in most instances, that collateral or affiliated business is considered in making the charge, which is divided about equally between aver-

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The Success of a Trust Solicitor

By HARLEY F. DROLLINGER
Vice President, The Fidelity Trust Company, Buffalo

Depends in a Large Degree Upon His Primary Training. Four Psychological Groups into Which All Prospects May Be Divided. Suggestions for Breaking Down Resistance Peculiar to Each Group. One Way of Getting the Prospect to His Attorney.

MANY seem more or less undecided about that amorphous and indefinable something known as ethics in trust business insofar as it relates to contacts brought about by personal solicitation. Therefore, an advertising policy that lifts this veil and places our services and activities within the full vision and understanding of the public is a civic benefactor, because it spells better and sounder business conduct.

Why should trust business differ in the manner of its development from other departments in the bank? Perhaps the confidential nature of this type of business does much to influence opinion as to the manner in which it is conducted. But every department of a bank is or should be surrounded by an atmosphere of privacy to a degree, and it should not be difficult for us to determine the normal relative proportion of each. The trust department exercises one of the most important functions of a bank, for it is a big brother to those who have been deprived of a guiding hand. Why then should banks hesitate to offer its use through personal solicitation if the tender is made in the proper manner?

Assuming that it is ethical to extend trust business by personal solicitation, then decide upon the clients to attract. A list of eligible prospective customers may be made from rosters of club members, tax lists, real and personal property taxrolls, the Blue Book and contributions of names from the officers, directors and stockholders.

Depends Upon His Training

WHEN the prospect list is completed, the officer in charge will be confronted with the problem of finding the proper representatives to carry the message to eligible clients. The trust solicitor should be preferably a man between the ages of 35 and 45 years. He should have an air of refinement, should be well educated, should have mature judgment and a pleasing personality. Also he should be analytical, a good business man and should fully appreciate the nature of the service he has to offer. One not thoroughly in sympathy with the work would have little chance of success, because he is selling something which is intangible and its only benefit to the prospect will be that assurance, satisfaction and peace of mind which comes with the belief that the future of his family is secure. How and from what source to select trust solicitors is, of course, the problem. Personally I prefer a man of middle age, who has had a successful record as a salesman, if he can fulfill the requirements heretofore mentioned.

The success of a trust solicitor depends to a great degree upon his primary training. He should be familiar with the decedent estate laws, trust laws, inheritance estate and income tax laws. He should know the manner in which an estate is administered, should understand the organization of the trust department and be able to trace the legal processes involved. Of course, it is unlikely that one would be called upon to display his knowledge in detail during each interview, but there is a certain poise that comes only with a thorough acquaintance with the subject which is particularly desirable in this type of business.

Must Master Subject

ONLY when the solicitor has mastered his subject he is ready to attack the list of eligible prospects. There are certain ethics to be observed in accordance with which his efforts will be measured in terms of success or failure. In his contacts with the public, a solicitor cannot afford to mention the trust department of his bank in such a way as to indicate its great superiority over a competitor, because such a program would cast a reflection on trust departments of banks as a whole. The business must be obtained on a basis other than that of a campaign of comparative merit. If a prospect has already made his will and has named as executor a trust company other than that represented by the solicitor, it would be a breach of ethics if he should in any way actively encourage the prospect to change the appointment to his own institution. Such an effort might imply a difference in the quality of service offered by the two institutions, and such a procedure should be discouraged. Harmonious cooperation between trust companies will be more fruitful and will, at the same time, greatly promote the cause generally.

The Trust Company Section of the American Bankers Association has made a great effort to create a spirit of understanding and cooperation between that organization and the Bar Association. To this end much has been accomplished, and relations will continue to improve if trust companies will adopt the suggestions submitted by the Trust Division through its special committee formed for this purpose. Let the solicitor send the prospect to his own attorney for all legal requirements. Let the trust company work with and through their client's attorney on all matters requiring legal counsel in connection with the estate.

Your prospect list will be divided into four psychological groups—those who are superstitious; those who are indifferent to the subject; men who recognize their duties, but fail to take action because they lack a well defined plan for the most effective distribution of their estate; and men who recognize their duties but procrastinate indefinitely.

It is surprising that one should be superstitious about making a will, but, as a matter of fact, there are many men and women who feel that signing a will is synonymous with signing a death warrant. Such a person must in some cases be approached by the solicitor with caution. The prospect with a sensitive nature must be approached in such a way that he will not be shocked by the directness of the appeal. He must be reached by the indirect or historical method. Tell him in a general way of the plans and experience of others, being at the same time careful not to divulge names. Let him draw his own conclusions until the subject becomes more routine to him. Complete familiarity with the matter will drive away his superstition, and proper action will be the result. Others who are superstitious, but by nature are not sensitive, can best be reached by a very direct method. Discuss the subject frankly and, figuratively speaking, laugh away their fears. Such a process will make the matter more commonplace and will at least minimize the serious aspect of the problem from his point of view. The solicitor will, of course, be required to distinguish between the two types and will apply the proper remedy.

It is not an infrequent experience to encounter a prospect who says, "I don't care about what happens to my property after my death, if my heirs lose it, the funeral is theirs, not mine." I have met many men who have made the remark quoted above, but there were few, indeed, who persisted in the attitude after this armor of indifference was penetrated and the discussion reduced to fundamental reasoning. Fortunately, there are few men who, at heart, are not interested in the future welfare of their families. Such a pose is usually assumed for the purpose of postponing serious consideration of estate problems. Therefore, the prospect should be stripped of this garish cloak and be persuaded to acknowledge the advisability of prompt action instead of delay.

The solicitor can be of particular service to those who realize the importance of the subject as related to the interests of

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Auctions Where They Bid On the Invisible

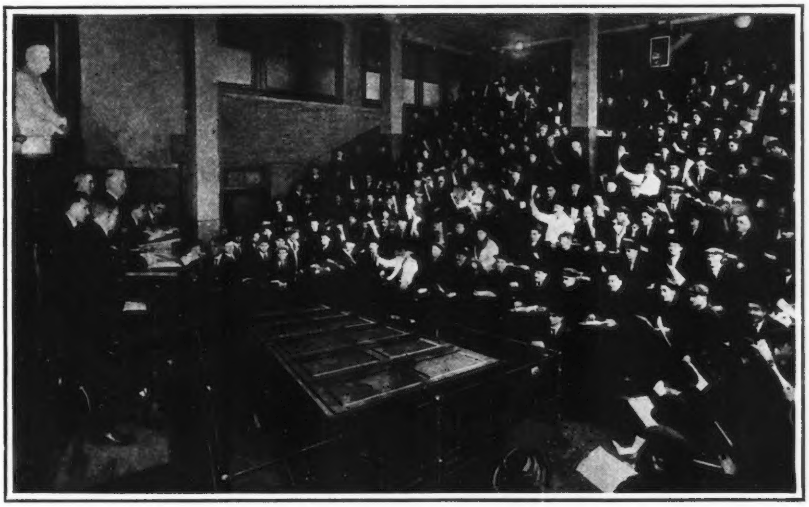
Value of Products Sold at Fruits and Vegetable Auction Sales During the Last Decade Has Tremendously Increased and the Producers Have Been Able to Get More Money for the Offerings. Bids by Wire While Cars Are En Route a Part of the Practice.

GROSS auction sales of fruits and vegetables have increased approximately 122 million dollars in valuation during the past decade. This estimated valuation is made with full recognition of the change in index numbers. The enormous increase in production and consumption of fresh fruits and vegetables in recent years has forced the development of every possible channel of distribution and the auction business has increased correspondingly. Fruit and produce auction companies borrow relatively large sums from the banks, especially during the active seasons when receipts are heavy, in order to be in position to make prompt settlement with their receivers while extending credit to their buyers.

An extensive study of these auctions and their position in the channels of distribution has recently been completed by the U. S. Department of Agriculture with the cooperation of the auction companies of the country. Fruit and produce have been sold at auctions in the United States for nearly a century but little was known of them and it is only during the past few years that they have become a vital part of our distribution machinery. Of the twenty-four fruit and produce auction companies now operating in this country, only four were doing business prior to 1900. On the basis of controlling interest, the auctions of the present day may be grouped in two divisions—auctions independent of trade control and auctions controlled by the trade.

Anyone May Buy

"THE desire of the trade for impartiality in the services rendered and the charges imposed is causing the gradual discontinuation of certain practices that at times have been a source of dissatisfaction," say the investigators. "In some cities these causes, together with a desire for participation in the profits earned by the auctions, have brought about reorganizations of existing companies or the founding of new companies. Auctions have become better established as permanent organizations in the last few years and greater uniformity in their methods and practices is apparent. Irrespective of the type of organization, any honest and equitably conducted agency that tends to bring the buying power of the market together and to stimulate active and unrestricted bidding would seem to exert a stabilizing influence in the market, and, therefore, in the last analysis, to be a benefit to both buyers and sellers. Auction sales are open to the public and anyone may buy. The selling is done in the open and the prices realized are published. This publicity tends to minimize such practices as rebates, secret agreements, private adjustments, and manipulation of accounts."



An auction in action

Many of the trade auctions have been reorganized since 1915 and the stock holdings have been more widely distributed among the buyers and receivers. In some cases these auctions are organized on a basis which in a sense may be considered cooperative, in that a discount is allowed to all stockholders, amounting to a fraction of 1 per cent of the gross value of their purchases or sales, payable at stated intervals.

The auction occupies a place between the shippers and the retailers. On the one hand, it functions like the carlot wholesaler or the commission merchant, while on the other hand it operates much like the jobber and other less-than-carlot wholesalers. It serves both groups.

Usually goods handled by the auctions are received from the salaried representatives of large shipping organizations or from auction receivers and are sold to the buyers of less-than-carload units for further wholesale distribution, although in some instances commodities sold by the auction companies are received by them direct from the shippers or country assemblers. Considerable quantities of goods are auctioned direct to the retail distributors without going through the hands of the jobbers or less-than-carlot wholesalers. One good effect that the auctions have on the industry is that they encourage uniform grading and packing in standardized containers. As a rule, produce offered in any other way cannot be handled profitably through auctions.

The investigators estimate that approximately 90,000 cars of domestic commodities were sold by auction companies during one recent year. This tonnage constituted more than 10 per cent of the total commercial movement reported by the railroads to the Bureau of Agricultural Economics for that year. The growth of this business may be largely attributed to the patronage of large cooperative and private marketing exchanges. The auction company that handles the accounts of one or more of these organizations is usually assured a steady and adequate supply. Bananas have come so extensively under auction sale that recently the gross sales of bananas sold by auction in this country amounted to 56 per cent of the declared value of the total banana imports of the United States for that year.

"The low point of auction sales is in January or February when sales are largely confined to domestic citrus fruits, boxed apples and pears, foreign citrus and dried fruits," say the investigators. "Sales stead-

ily increase during the next few months, reaching a small peak in June when the early deciduous fruits appear in volume, then usually slack off noticeably in July. The volume climbs to the peak for the year in the fall with heavier shipments of citrus and deciduous fruits. After October the sales diminish rapidly during the next two months to the low point for the succeeding year.

"In the eastern auctions the volume of domestic citrus fruits sold is approximately one-third greater than the volume of deciduous fruits. In some auctions of the Middle West this situation is reversed, two of them selling deciduous fruits almost exclusively. New Orleans sells more domestic vegetables at auction than any other market. Domestic and foreign vegetables are sold at auction in New York, with a perceptible increase in the volume of domestic vegetables offered in recent season.

"In the past a widespread misunderstanding of the auction method of selling has prevailed. Some have had the impression that most of the products sold at auction are of poor quality, damaged, or in bad condition, and must be sold immediately at any price. It is believed that this misconception is waning rapidly."

Crop Production Financing

MORE commodities would probably be sold at auction in volume, the study indicates, if it were not for present methods of financing crop production. Dealers frequently assist in financing growers by advances of cash or supplies for which the grower agrees to deliver all or a stated part of his crop to be marketed by the dealer and shipments are consigned to him. The dealer who secures a part or all of his revenue from commissions or profits on the sale of these consignments is not likely to turn them over to the auction for sale since this would reduce his income. In some instances, auction companies have made advances to growers or shippers to assist in financing shipments intended for auction.

Since practically all classes of the wholesale buying trade are represented at the auction, a buyer can be found at some price for each line offered provided the goods have some merchantable value. Since the commodities are sorted into "lines" the buyer at auction can buy the variety, grade and size he wishes and is not compelled to purchase something he does not need in order to secure the thing he wants. On the other hand some few commodities do not lend themselves to auction selling for various reasons and in some instances conditions are such as not to suggest that these commodities will soon be sold at auction. Motor trucks are pointed out as being a factor of increasing importance in the development of the auction. Some of the truck lines have extended their delivery operations from thirty to fifty miles outside the markets. In Chicago eight motor truck line operators purchased nearly 8 per cent of the two and three-quarter millions of packages sold by one auction company during one year.

The auctions exercise a considerable influence as an indicator of market values. The auction prices are made public immediately after the sale by trade publications, by newspapers and by price-realized catalogs published by the auction companies, and are used to a large extent as the basis for market reports issued by governmental and private agencies. Prices realized by the auction sales on well-established auction commodities are reflected directly in street sales.

Length of Credit Term

LARGE auction companies usually allow purchasers of domestic products a credit term of ten to fifteen days, according to the investigators. This term is sometimes extended to thirty days on foreign products. Buyers sometimes carry interest-paying deposit accounts with the auction companies to establish a credit. Buyers who have not arranged for credit must pay cash before delivery. Some companies operate on a strictly cash basis. Most of the companies guarantee the solvency of their buyers and settle with the receivers within twenty-four or forty-eight hours after the sale so that any losses from bad accounts are borne by the company.

Shipping point inspection certificates issued cooperatively under Federal and state auspices during the past two years have made possible the development of a new type of auction known as the F.O.B. auction. The sole business of these companies is to sell cars in transit on the strength of the government inspection certificate. The auctioneer in Chicago, for instance, has in hand a telegraphic summary of the result of the government inspection on a car of California grapes which left the shipping point the evening before. The car is offered for sale on this description. Through telegraphic wire connections the same car is offered at auction at New York, Philadelphia, Boston, Pittsburgh, and Detroit. It is offered on an F.O.B. shipping point basis with no other evidence of what the car contains than that carried in this telegram.

Sold by Auction While En Route

THE auctioneer makes the offering and, through the system of wires, bids are received from these various cities, and business houses in other cities hundreds of miles away can do business at these auctions through resident buying brokers, by stating the size, variety, and grade of the product desired and the character of desired containers. The auctioneer proceeds exactly as at any other auction and the car goes to the highest bidder no matter where he may be. The purchase price is transmitted to the shipper by wire, and the transaction is completed within less than forty-eight hours after the car is loaded. It proceeds at once to its destination without indirection or delay. Neither auctioneer nor purchaser has seen even a sample of the goods. On the first 500 cars of California cantaloupes thus sold there was a net saving in commission to the shippers of 10 per cent of the F.O.B. price of the goods. During the first six months of the operation of these F.O.B. auction companies, they had sold an aggregate of nearly 9000 cars of fruit and produce valued at more than six million dollars.

Trust Solicitor

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their families, but who, lacking a well defined plan, fail to take proper steps to safeguard their future. Being unable to keep posted on local, national and world conditions that change from day to day, and being inexperienced and unfamiliar with the numerous problems which bankers encounter daily, they must necessarily depend upon the bank officers' superior knowledge. Five years ago I called upon a man in New York who had accumulated a fortune. He had never made a will because he had no idea how other men were handling similar problems. He had gone to his attorney for help and had been advised that he could make his will in any manner he wished, so long as he did not try to defeat his wife's dower rights. He failed to get the constructive suggestions he sought, and the will was not made. It has been my experience that men of this class usually prefer to give a complete understanding of their situation in detail and then expect the solicitor to definitely advise two or three programs for the distribution of their property from which they will select that which best meets their requirements. This is a service that no advertising matter can offer since it is a problem that depends upon personal contact for its solution. Since it is the banker's duty to serve the client's interests in every respect, a solicitor who is not well informed is ill prepared to approach prospective clients on a subject of such vital importance. Therefore, be sure that the representative reflects credit upon the institution by his thorough knowledge of trust business and its many problems.

Finally we come to the case of the man who expects to make a will and put his house in order "some time," but he never does. Procrastination is the bane of the solicitor's very existence. Unfortunately, there is no panacea for this malady. The patient must be persuaded, cajoled, shamed, wheedled, threatened and driven to perform a duty he expected to do all the while. Why? No one knows. The most hackneyed excuse offered is, "I haven't had time to see my attorney." To meet this argument we have prepared a pamphlet, "The Easy Road to Will Making," on which complete information regarding his wishes may be noted by the will-maker. When completed the pamphlet may be mailed to his attorney, who will then be in possession of all the facts from which a will may be readily drawn. It requires about ten minutes to answer all necessary questions if the will is simple in construction, and about twenty minutes if it contains trust provisions. This has been our most successful weapon in combating the procrastination evil, but it is by no means a cure-all.

The Wonder in the Rule of Gold

By FRANCIS H. SISSON
Vice-President Guaranty Trust Company

Though Admittedly Not a Perfect Medium Because Its Value Changes, Gold Remains the Most Satisfactory Standard in the World. Advantages Strengthened—Not Weakened—By Widespread Temporary Abandonment. Vain Search for Better One.

NEARLY all the metals have at times been made use of as money. Early Chinese currency was of copper or iron. The ancient Spartans employed iron and the ancient Romans copper. The first Hebrew coins were of copper. Lead has been used occasionally and at one time tin was employed by the British kings. Nickel and aluminum are also employed.

The two precious metals, however, silver and gold, hold a far more prominent place as money than any others. This is because these metals conform far more closely to those requirements which are deemed essential for this purpose, as they possess to a greater degree than any other substance the qualities of usefulness, ready transferability, a high value in proportion to mass or weight, indestructibility, while there are reasonable limits to their supply. They can also be readily divided without loss of value and, if need be, may be reunited.

Gold and silver alone, it has aptly been observed, are of small volume, of equal goodness, easy of transport, divisible without loss, easily guarded, beautiful and brilliant, and durable almost to eternity.

In fact, gold has long been steadily advancing to its present position of preeminence as almost the sole satisfactory basic unit of money. During the middle ages, it is true down to the eighteenth century, silver was the chief money standard, but gold came into general use in the eighteenth century.

Jevons, in his "Money and the Mechanism of Exchange," commenting on the various motives for the use of representative money in place of the actual metal, mentioned the trouble and risk involved in the physical handling of large amounts of the precious metals. He traced the origin of banking in England to the necessity for the safe custody of metallic money.

For a long while the only institution in England resembling a deposit bank was the mint in the Tower of London, with which merchants were accustomed to place their specie for safekeeping.

Appropriated Deposits

"UNFORTUNATELY, in 1640, King Charles I. appropriated as a loan £200,000 thus deposited, and the merchants, no longer trusting the government, and finding it dangerous to keep large sums of money in their own houses during the troubled times which followed, resorted to the practice of depositing their money with goldsmiths, who probably had vaults and guards suitable for the purpose.

"As acknowledgments of the possession of such sums of money, the goldsmith gave receipts, and at first these documents were special promises, like dock warrants. The practice arose of transferring possession by delivery of these receipts, or 'goldsmith's notes,' as they were called. Such notes are frequently referred to in Acts of Parliament, and even as late as 1746 most of the London bankers continued to be members of the Goldsmith's Company. It is plain from the manner in which these notes were mentioned in some statutes that they had become general and not special promises—mere engagements to deliver a sum of money on demand, without conditions as to keeping a reserve for the purpose."

The gold standard was legally established by England in 1816 and since that time that country has strictly adhered to it, although the exigencies of war forced Great Britain to suspend her free gold market.

France established the gold and silver standards in 1803, after the monetary disturbance that resulted from the Revolutionary wars had ceased, and the United States adopted them in 1792. Silver was displaced by gold in France after great discoveries of gold in California in 1848 and in Australia in 1851, and for the same reason gold became the principal currency metal in the United States. Between 1848 and 1860 it is said that more than £100,000,000 of gold was coined in France, while an equivalent amount of silver was exported, principally to the eastern countries. One by one most of the progressive nations of the world have established the gold standard. This was done, for example, by Austria-Hungary in 1892, by Russia and Japan in 1897, by India in 1899 and by Mexico in 1904. The Chilean currency was reformed in 1895 when the gold standard was adopted. In fact, there are now few nations which are not committed in theory at least to the maintenance of the gold standard.

Attempts have often been made to establish a stable system of money using both gold and silver as standards together, but the variability of value between the two precious metals has always brought difficulties. Various ratios between these two metals have been fixed by law but it has not been found practicable to maintain these ratios permanently. Unless silver is supported by being made exchangeable with gold there is soon apt to be a growing disparity in value.

As one authority has pointed out, "there are natural and commercial causes which may operate to produce either an incessant fluctuation in the relative value of silver and gold or a wide and increasing divergence from year to year through a long period from the ratio of exchange existing between the two metals at the commencement of the period. So far are the sources and conditions of supply of the one different from those of the other that notwithstanding the influence of the durableness of the metals in giving steadiness of value to either by turns and hence to the two in their relation to each other, it would be in the highest degree unreasonable to assume that the ratio of exchange between gold and silver would remain unaltered through any considerable term of years."

The Sixteen-to-One Contest

IT will be recalled that the United States experienced an historic political struggle in 1896 over the famous Bryan ratio of sixteen-to-one, a struggle which it is to be hoped settled for all time for this nation the vexed question of a double money standard. The records of history are replete with similar unsuccessful efforts to maintain permanently a parity in value of these two fluctuating metals.

It has taken a long time to fix in the minds of the people of the world the great advantages of the single gold standard and to teach the danger of permitting the debasement of this standard by any form of depreciation. In earlier days the reduction of the amounts of the precious metals in coins was widely practised by irresponsible rulers and always with disastrous results. When representative paper money, or currencies based upon a reserve of precious metals, has come into use debasement has taken the form of issuing extravagant amounts of paper as the readiest way of evading the limits of a sound currency which is only found when representative forms of money have as a basis an equivalent of real values in some form. There is a long record of such debasement. In fact, there seem always to be found in every country those who hold strongly to the fallacious and destructive theory of inflation in spite of all the dire lessons of experience.

Recent history has been furnishing some very striking examples of the disasters which are certain to follow the debasement of money through the unlimited issue of paper currencies lacking their required solid background of precious metals or other

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Some of the Major Problems

By JAMES E. CLARK

"THE waste in American industry and in the use of private incomes in this country represents enough money to give wage-earners all they have asked for in their most extravagant demands; to furnish capital larger returns on invested capital, and to save the public untold millions in the cost of commodities."

The above statement is quoted from an article by William E. Knox, President of the American Bankers Association, which is printed in this issue of the JOURNAL. Lest anyone should question the accuracy of so startling a statement, let us recall a few things of common knowledge. Following the habit of the times, we turn to Washington first. It has been said that there is not a business operation which the government conducts which would not go straight into bankruptcy if private individuals conducted it on the same lines. If it is fair to point to the government operation of railroads, there was a deficit of $1,696,000,000 when the government turned the railroads back to their owners. There is a loss of $25,000,000 a year in government shipping, and an incalculable waste in the payment of men in government service to whom efficiency means little.

On a national scale there is a waste of timber, by fires due to carelessness and insufficient protection, waste of land due to taking everything out and putting nothing back, and who is there who in the course of a day's ride on a railroad has not been impressed with the fact that of absolutely unused land we must have millions of acres?

In the industries there is a waste of time due to differences between employer and employee that in a decade amounted to billions of dollars in lost wages. There is the further "invisible" waste in the turnover of labor which, among a nation of 114,000,000 people, must amount to a tidy sum.

There is a waste that has been estimated to be a billion a year in the purchase of fraudulent securities, and a waste of $389,192,000 per year from fire, other than forest fires, and so the list might be prolonged indefinitely.

Now there is a curious circumstance not unrelated to all this waste. We have multiplied by millions of degrees the human voice, and by other millions of degrees the power and range of the ear and eye. Once it was considered to be a marvelous thing that a man could stand on a mountain top and, with a mere gesture of his hands, throw shadows that were awe-inspiring. Then men multiplied *shadow* a thousandfold, but now we multiply *substance* and utility and speed a thousandfold, and these achievements are commonplace; but with all our getting have we learned to use our personal income with any more wisdom than did our forebears?

Due to scientific achievements, there are some wonderful values to be obtained for a dollar, but in intensifying motion, in exchanging intensity for velocity, we have not —at least on any grand scale—given any comparable qualities to the dollar. We have allowed the dollar to grow smaller because knowledge of personal economics has not grown in proportion to other advances in knowledge.

President Knox's call for needful action is timely. He foresees great gains resulting from widespread education and effort to train men and women how to handle their wages wisely. He sees more for the wage-earner in money and contentment, more for industry in production, more for capital in the wages that *it* earns.

The reduction of waste is one of the major problems and a widespread and determined effort to solve it—beginning with the distribution of personal income—should be an appropriate movement now at the beginning of the economic age into which civilization is entering!

Over-Extension by Indirection

THERE is no more virtue in the "over-extension" of the individual of small affairs than there is in the over-extension of an institution. The principle is the same, the difference is largely one of degree.

A broad highway to over-extension among wage earners and people of small means has been provided by the development of the system of installment buying which has risen to such heights that here and there men are crying out against it.

There is nothing pernicious about installment buying in principle if rightly used. In its use to acquire and pay for a home we see it at its best. There it is both serving the individual who buys and serving the general business of the community. In its use by the man or woman who has no reserve for the rainy day, to purchase a high-priced luxury we see it at its worst. Here the purchaser is going far out on thin ice and if he goes through, the expense of the calamity will have to be borne by someone who is thrifty or by the general public.

The man who buys a house on the installment plan is a community builder, and in its acquisition he becomes a more stable member of society; but the man who buys a more or less burdensome luxury which depreciates from day to day is in quite a different class. The best that can be said of the latter is that he is helping to make business good, but is this good business? As soon as his luxury has run its cycle he is as poor as he was in the beginning—even worse off—for in all probability habit urges him to again indulge himself in a luxury really beyond this means, and the broad highway of installment buying beckons him once more.

The JOURNAL a few months ago told of a startling condition in Rhode Island where under an old law installment buyers could be taken into custody, sent to jail without arraignment before a magistrate and kept there for a term, at the completion of which the debtor not only owed the original debt but an additional sum for his board while in jail. And this item, too, recently appeared in a newspaper in Chicago:

"With a six month old baby in her arms, Mrs. Anna Melendz, 3038 Blaine Place, spent last night in a cell in the county jail. She faces imprisonment for six months unless her husband, who deserted her after involving her in the illegal sale of a $500 diamond ring, can be found.

"In 1923 Mr. and Mrs. Melendz, then living in South Bend, Ind., bought the ring on installments and pawned it. They moved to Chicago. An attorney for the jewelry firm and Deputy Sheriff William L. Kiewert found the wife yesterday. She said her husband had left her to live with another woman on the north side."

Fortunately, all of this is not characteristic of all installment buying and at the worst is probably indicative of the lesser side of the evil; but when a person with but $12.50 in cash may in some places buy an automobile and persons with less money may purchase jewelry beyond need or reason, then the question as to whether or not credit is being misused and to a dangerous extent is in order and timely.

Speaking of credit in general and not of installment buying, Charles E. Treman, president of the New York State Bankers Association, recently said that it "was time to put on the brakes on spending for unnecessary articles and luxuries." "Credit," he continued, "has got to stop somewhere and it has already gone too far."

As long as business is good and work is plentiful the installment business is not likely to cause immediate trouble, but if something interrupts the even tenor of general business who will take up the shock?

Whatever of evil there may be creeping into the practice is not to be attributed alone to the mentality of the buyers on the installment plan. Many of them are but clay in the potter's hands. The initiative is with the sellers, and moral responsibility aside, the sellers as good business men cannot be forever indifferent to the weakness of a system which is narrowing the margin of safety for the wage earner.

Nor can banking, even though a good financing organization is the banker's only contact, be indifferent to the fact that growing numbers of its townspeople are following unsound practices in the distribution of personal income.

If hand to mouth living of growing numbers of a community is not good for those who so live, then these habits cannot in the long run make for the well-being of business.

We may one day look back upon installment buying as the paving of the way for over-extension by indirection.

Not Geographical

IN another part of this month's JOURNAL there is a presentation of the so-called Russian question by Rev. Edmund Walsh of Georgetown University, Washington, that we commend to the attention of every reader, for while it has been the habit of the world to think of Russia as a place, he shows to us conclusively that we must deal with it not as a geographically bounded nation but rather as a destructive poison working throughout the whole world.

We cannot, therefore, dismiss the Russian question from our minds with the thought that this thing need not concern us because it is located at a safe and comfortable distance. What the cable dispatches from China and France tell us prevent such a summary dismissal of the subject.

The disturbance in China is attributed to Soviet agitation, and conservative Chinese are said to fear a swing to Sovietism unless national ills are remedied. The evil effects of such a radical change in the Orient are incalculable. Great commercial losses would perhaps be the least of them. A mightier disaster would be to awaken the destructive spirit of these millions of misgoverned, ignorant, easily misled people.

Wholesale arrests in France for sedition and circulating seditious propaganda have uncovered the extensive underground work of the Bolsheviki in that land, particularly in obstructing the French campaign in Morocco; and the trail leads to high places. So that, if corroboratory evidence of the accuracy of Father Walsh's views were needed, these events in China and in France would supply it, and would accentuate the importance to all business of the Russian question which is bound to loom large in public discussions in the months to come.

The Rapid Growth of Time Deposits

By JAMES S. ALEXANDER

Chairman of the Board, National Bank of Commerce in New York

DURING the last several years a series of events brought about the most far-reaching change in our banking position that has occurred in more than half a century. Some of these developments have been going on sufficiently long for us to have become adjusted to them; others are only in process. While the final effect of the latter may not be known for a number of years, no one can view these important tendencies without recognizing that the future of American banking depends in some important degree at least upon the foresight which we now exercise and the extent to which we meet the new responsibilities placed upon us.

The adoption of the Federal Reserve System and the 1917 amendment materially reduced the legal reserve required against demand deposits of national banks. The net effect of this reduction was to release for further extensions of credit a substantial proportion of the commercial bank reserves.

Bankers are familiar with the change in the legal reserve requirement concerning time deposits. Under the National Banking Act the reserve requirement was the same as against demand deposits. The original Federal Reserve Act reduced the requirement to 5 per cent, and the 1917 amendment to 3 per cent. These reductions increased the efficiency of the bank reserves supporting time deposits by several hundred per cent. This ratio, however, does not suggest the full increase in banking power due to this change, because the reduction in reserve requirement has tended to shift some deposits formerly classed as "demand" into the "time" deposit class.

During the period that the new reserve requirements have been in force, we have noted the more rapid growth of time deposits as compared with demand deposits, and the keen competition for time deposits on the part of commercial banks. As we look back over the figures for the last ten years we appreciate the significance of the change.

In 1914 the time deposits of national banks were about 1,200 million dollars, or 18 per cent of the aggregate of demand and time deposits as classified by the Comptroller of the Currency. Demand deposits were about 5,200 million dollars, or 82 per cent of the aggregate. In 1924 the time deposits had increased to nearly 5,300 million dollars, or 35 per cent, while demand deposits were 9,600 million dollars, or 65 per cent of the aggregate. In other words, time deposits have increased nearly 350 per cent, while demand deposits have increased about 85 per cent.

During the same period there has occurred a significant growth of capital loans and investments of commercial banks. While loans on real estate mortgages still represent a small proportion of total loans of commercial banks, the rate of increase during the last five years has been very marked. Of more significance, however, is the increase in the investments. During the last ten years the ratio of investments of national banks has increased from 17 per cent of total assets to 23 per cent. This latter development is not limited to the last ten years, to be sure. The gradual growth of the percentage of bank funds placed in investments has been going on for many years.

DOES the change in relative volume of time deposits and investments mean that we are making a departure that calls for some consideration? In quoting figures for growth of time deposits, I gave the figures for national banks as a whole. Had I given you the figures for New York and New England alone, they would have shown an even more striking development. What we have really been witnessing in some cases is the development of a hybrid bank, or two banks under the same roof.

I do not believe that this change necessarily indicates an unwise departure. Whether the departure is wise depends upon the clearness of the distinction made between the two types of funds, and the disposition of each.

It should be clearly borne in mind that we are engaged in two kinds of banking, and that the funds in each division should be lent upon different principles. In some states the law requires that savings funds and commercial funds be physically segregated. I do not believe it is necessary that these funds be physically segregated, but in the interest of sound banking they should be mentally segregated for commercial and investment purposes.

There is another development in connection with the growth of time deposits, however, that calls for serious consideration. I refer to the competition of the commercial banks with each other and with savings banks for time deposits, and in this connection I would mention also the competition among commercial banks for demand deposits. The most important consideration for the banker, both for himself and for the client whose money he is using, is the safety of the funds. If funds are to be safely placed, there should exist no influence tending toward lending money at interest rates not consistent with safety, and this principle applies not only to commercial loans and to loans upon mortgage, but also to investments in securities. If the banker is paying a higher rate for his money than is consistent with the profitable placing of that money in sound investments, he is necessarily subject to influences tending to the acceptance of investments that are not first class. If money is to be invested under proper restrictions as to security, therefore, it is important that the money shall not have cost the banker more than it is worth. Since one of the starting points in unsound banking is the payment of too high deposit rates, the banker must set his face rigidly against such payment.

The problem of competition for deposits has not been limited to the country banker. In large cities, not only in this country but abroad, banks have had to face this problem. Whenever competition has become too acute, it has been necessary for the bankers to revert to sound practice through concerted action.

This question is not simply one of banking profits, it is much larger than that; it is a question of banking ethics that goes to the root of sound banking. Bankers owe it not only to themselves and to those whose money they use, but also to the communities which they serve, that banking be maintained upon a plane which shall be safe and which shall not stimulate unwise or unprofitable business enterprise. It is the duty of the bankers, therefore, in any community where competition for deposits has become serious to get together and to solve the problem.

Measuring Stick for Bank Expenses

A COMMITTEE of the Illinois Bankers Association, headed by C. S. Macferran as chairman, has devised what the committee has termed "a convenient measuring stick for expenses and other items affecting the next income of banks.

"The figures and percentages given," said Mr. Macferran, "are intended to assist managing officers of a bank who are interested in increasing the bank's net income by comparing their own earnings and expenses with those of other banks of their same size. On account of the competitive nature of the banking business, it is obviously difficult to compare individual banks; but a set of earnings and expenses has been prepared which are the average for banks in a given group.

"These figures, which are based on the results of a questionnaire, with which members of the Illinois Bankers Association have cooperated, and information from other authoritative sources will make available to bank managers a measuring stick from which they may know what results other Illinois banks have experienced during the past year."

Though the tables are based only on figures from Illinois banks, they should be of great value everywhere, for the basic figures cover the experience of great banks, the small town banks and all of the classes of banking activity in between these two extremes:

The tables follow:

Analysis of Bank Earnings, Expenses and Dividends

Giving Figures for a Typical Bank in Each Group According to Amount of Loans and Investments—Illinois Banks—Year 1924

Group	I	II	III	IV	V	VI	VII	VIII
Amount of Loans and Investments	Under $250,000	$250,000 to 500,000	$500,000 to 750,000	$ 750,000 to 1,250,000	$1,250,000 to 2,000,000	$2,000,000 to 5,000,000	$5,000,000 to 10,000,000	Over 10,000,000
1 Average Earning Assets	$182,193	$364,049	$623,672	$ 983,237	$1,600,725	$2,888,444	$ 6,921,214	$82,757,882
2 Capital, Surplus and Undivided Profits	58,070	104,475	177,147	235,746	366,250	548,404	1,150,107	13,587,530
3. Time Deposits	28,088	58,171	156,344	343,186	589,525	1,355,808	3,222,857	18,819,941
4 Gross Deposits	163,667	318,573	562,885	935,900	1,549,950	2,990,519	6,815,321	94,640,647
INCOME								
5 Average Gross Earnings	11,736	23,235	39,705	61,159	103,702	182,638	461,925	4,997,393
DEDUCTIONS								
6. Interest Paid	2,395	5,646	9,350	18,080	29,757	45,466	127,967	1,718,654
7 Expenses and Salaries	6,542	11,574	19,340	27,928	46,430	85,632	203,186	1,905,427
8. Total Deductions	8,937	17,220	28,690	46,008	76,187	131,098	331,153	3,624,081
9 Net Profit (Before losses)	2,799	6,015	11,015	15,151	27,515	51,540	130,772	1,373,312
Less								
10. Losses, Loans, Investments, etc	746	3,295	3,788	4,792	6,391	14,336	27,772	405,499
11. Net Profit from Operations	2,053	2,720	7,227	10,359	21,124	37,204	103,000	967,813
12 Less Dividends Paid	1,585	4,004	7,238	11,766	19,256	23,763	68,152	719,476
13 Carried to Undivided Profits	$ 468	$ 1,284*	11*	1,407*	1,868	13,441	34,848	248,337
*Denotes deficit to Undivided Profits. *Note: The following amounts were salaries for each group*	3,618	6,079	10,139	14,194	24,431	45,644	111,162	955,233
RATIOS								
14 Gross Earnings (5) to Average Earning Assets (1)	6.44%	6.38%	6.37%	6.22%	6.48%	6.32%	6.67%	6.04%
15. Interest Paid (6) to Gross Earnings (5)	20.41%	24.30%	23.55%	29.56%	28.69%	24.89%	27.70%	34.39%
16. Expenses and Salaries (7) to Gross Earnings (5)	55.74%	49.81%	48.71%	45.67%	44.77%	46.88%	43.99%	38.13%
17. Losses (10) to Gross Earnings (5)	6.35%	14.18%	9.54%	7.84%	6.16%	7.85%	6.01%	8.11%
18. Net Profit after Losses (11) to Gross Earnings (5)	17.50%	11.71%	18.20%	16.93%	20.38%	20.38%	22.30%	19.37%
19. Dividends Declared (12) to Capital, Surplus and Undivided Profits	2.73%	3.83%	4.09%	4.99%	5.26%	4.33%	5.93%	5.30%
20. Net Profit (after losses) to Capital, Surplus and Undivided Profits	3.54%	2.60%	4.08%	4.40%	5.77%	6.78%	8.96%	7.13%
21. Interest Paid to Average Gross Deposits	1.46%	1.77%	1.66%	1.93%	1.92%	1.52%	1.88%	1.82%
22. AVERAGE Time Deposits to Average Gross Deposits	17.16%	18.26%	27.78%	36.67%	38.04%	45.34%	47.29%	19.89%
23. Average Invested Capital to Gross Deposits	35.48%	32.79%	31.47%	25.19%	23.63%	18.34%	16.88%	14.36%

The analysis of expenses, leaving out the items of salaries and interest on deposits, reveals that taxes amounted to a large part of the bank's burden. This was especially true in the case of the small banks, where taxes were one-seventh of the expenses.

Analysis of Operating Expenses—Illinois Banks

(Excluding Salaries and Interest on Deposits)

For the Year 1924

Amount of Deposits—	Under $500,000	From $500,000 to $1,000,000	From $1,000,000 to $2,500,000	From $2,500,000 to $5,000,000	Over $5,000,000
	(Group A)	(Group B)	(Group C)	(Group D)	(Group E)
Average Deposits	$235,064.00	$693,039.64	$1,568,831.65	$3,440,397.13	$8,351,423.20
Average Invested Capital	47,542.24	129,230.52	271,569.46	402,863.46	922,032.48
1. Advertising	$ 206.71	$ 778.56	$ 2,354.84	$ 5,284.95	$ 10,980.30
2. Donations	24.77	96.25	270.74	551.82	1,243.52
3. General	561.02	1,366.27	4,219.15	6,388.15	12,724.64
4. Insurance	200.31	548.42	1,245.60	2,437.40	5,819.14
5. Postage	112.32	307.50	612.27	1,290.21	2,728.53
6. Rent or Bldg.	115.92	633.35	1,945.38	4,071.05	16,709.96
7. Sub. and Dues	47.00	108.78	396.76	876.41	1,035.72
8. Supplies & Eqpt.	403.66	1,208.39	2,948.06	5,405.70	12,071.49
9. Taxes Paid	1,127.62	3,109.51	5,920.21	8,170.00	21,374.17
10. Tel. & Teleg.	45.72	130.06	317.01	701.82	1,476.97
11. Traveling	11.44	23.96	86.70	260.70	121.02
Total Expenses, excluding salaries and interest on deposit	$ 2,856.49	$ 8,311.05	$ 20,316.72	$ 35,438.21	$ 86,285.46

Conference in Seattle

AT Seattle, Wash., Aug. 4 and 5, there will be held the Pacific Coast Third Regional Trust Conference, under the auspices of the Trust Company Division of the American Bankers Association. A. R. Godsave, President of the Trust Section of the Washington State Bankers Association, will open the conference, and Francis H. Sisson, vice-president of the Guaranty Trust Company of New York City will preside. The tentative program includes the following discussions: "A Survey of the Trust Business on the Pacific Coast," L. H. Roseberry, vice-president, Security Trust & Savings Bank, Los Angeles; "How to Increase the Earnings of the Trust Department During Its Early Years of Operation," W. J. Kieferdorf, vice-president, Bank of Italy, San Francisco; "The Economic Value of Trusts," R. O. Kaufman, vice-president, Union Bank & Trust Company, Helena, Mont.; "Selecting Trust Investments," D. W. Holgate, trust officer, United States National Bank, Portland, Ore.; "Our Most Effective Trust Advertising," short talks by delegates; "Management of Real Property for Estates and Trusts," Harold E. Fraser, vice-president, Union Trust Company, Spokane; "Real Estate Subdivision Trusts," B. L. Smith, trust officer, California Trust Company, Los Angeles; "The Trustee's Duty and Responsibility under Corporate Bond Issues during Life of the Issue and in Case of Default," A. L. Grutze, secretary, Title & Trust Company, Portland, Ore.; "Acting as Registrar and Transfer Agent," R. M. Sims, vice-president, Mercantile Trust Company, San Francisco; "Management of Financially Involved Business Concerns Through Receivership and Assignments," George T. Petersen, secretary, Bankers Trust Co., Salt Lake City, Utah, and "Training Trust Men," LeRoy A. Mershon, Deputy Manager, Trust Company Division, American Bankers Association.

Mr. C. L. LeSourd, vice-president, Dexter Horton National Bank, Seattle, is Chairman of the Committee on Arrangements, representing the Trust Section of the Washington Bankers Association, which is to act as host to the visiting bankers.

A banquet will be held on the evening of Aug. 5, at which Mr. J. W. Spangler, president, Seattle National Bank, will be toastmaster.

Convention Calendar

Date	State Association	Place
July 11-13	Montana	Glacier Park
Sept. 15-16	Kentucky	Louisville
Sept. 16	Wyoming	
Sept. 16-17	Indiana	West Baden
Sept. 21-22	New Mexico	Las Cruces
Nov. 6-7	Arizona	Phoenix
Nov. ——	Nebraska	Omaha
	Other Associations	
July 14-17	American Institute of Banking	Kansas City, Mo.
Sept. 28-Oct. 1	A. B. A.	Atlantic City, N. J.
Oct. 14-16	Financial Advertisers Association	Columbus, Ohio
Dec. 2-5	Investment Bankers Assn. of America	St. Petersburg, Fla.

Recent Decisions

DIGESTED BY THOMAS B. PATON, JR.

Assistant General Counsel

Summarized

UNDER the Federal (better known as New York) rule of liability of collecting bank for default of its correspondents, where by a collection agreement the collection items in fact remain the property of the depositor, although the indorsure forward does not disclose this, the depositor or his assignee may proceed directly against the collecting bank whose negligence caused loss to the owner, without attempting to hold the initial bank of deposit liable.

IN Arkansas by statute a note given in purchase of a patented article is absolutely void, if it does not recite on its face what it was given for, even though the note is in good faith purchased by a third party. Nor does a subsequent attempted ratification cure its defects.

MORTGAGES on crops more than one year in advance are void in Washington by statute, and the recordation thereof does not cure the defect.

DEPOSITOR appearing in person may revoke authority to pay out his deposit conferred by letter already mailed with passbook enclosed.

BANK payee of a note obtained directly from the maker may, as any holder in due course, hold indorsers liable, even though the note was given as further security on a former debt, on which the bank was threatening to press for payment.

A TEMPORARY certificate issued to a buyer of a negotiable bond calling for the bond to be issued to holder absolutely when issued is not negotiable, and good faith purchaser of certificate from thief takes no title.

Collection Agreement Between Depositor and Bank as Determining Party to Whom Subagent Collecting Bank Is Liable—New York and Massachusetts Rules —Federal

PLAINTIFF accepted certain checks totaling $8,851 as a deposit for collection, the deposit slip containing the following provision: "This bank will observe due diligence in its endeavor to select responsible agents, but will not be liable in case of their failure or negligence or loss of items in the mail. * * * All items are credited subject to final cash payment and are handled at risk of depositor." These items were forwarded to the Federal reserve bank defendant for collection, nothing appearing thereon by indorsement or otherwise to indicate that the checks were deposited under the special agreement set forth above, or that they were not owned outright by the forwarding bank, plaintiff herein.

Defendant Federal reserve bank forwarded these checks direct to the bank on which they were drawn, and accepted in payment thereof the drawee's draft drawn on its city depository. Before this last named draft was paid, the bank (drawee of the checks) became insolvent, and the defendant Federal reserve bank charged back against plaintiff bank to cover the items.

Plaintiff brought suit to recover the amount, on the grounds that defendant Federal reserve bank should stand the loss, for it was occasioned by its negligence in accepting the drawee's draft in payment of the checks, instead of demanding cash, the checks being surrendered in exchange for the draft while the drawee was still paying cash. But for some reason not disclosed, plaintiff sought recovery as assignee of the rights of its depositor instead of suing under its own rights as indorsee of the checks, as apparently it might have done, for this suit was in a Federal jurisdiction, which follows the New York rule allowing the initial bank of deposit to hold its collection correspondents liable directly to itself instead of to the depositor of the item.

The Federal reserve bank set up as a defense the contention that it was not liable to plaintiff as assignee of the rights of the depositor, for the depositor had no rights against defendant as an agent for collection of the checks, but must look directly to plaintiff itself, as it was the bank with whom the depositor dealt; that there was no privity between the depositor and defendant Federal reserve bank, for there had been no dealings between them; and that under the Federal rule, following the New York rule, defendant was not the agent of depositor, but was agent of the forwarding bank. Following this line of reasoning that the depositor could not hold defendant liable, defendant claims that since plaintiff here seeks to hold defendant liable upon an assignment of the claim from the depositor, the assignee, plaintiff, having no better right than the depositor, cannot prevail.

Plaintiff, suing under the assignment of its depositor's rights, claims its depositor could have brought the suit, because by the terms of the deposit ticket, the items deposited remained the property of the depositor. But defendant contends that since nothing on the check gave it notice of this special agreement, it had the right to treat it as the property of the forwarding bank.

The Federal reserve bank was held liable to plaintiff as assignee of the depositor's claim, for it was no concern of defendant's as to who was the owner of the checks it undertook to collect. It did undertake to collect them for whoever the owner might be, and having by its own negligence accepted a worthless draft in payment was liable to the true owner (in this case the depositor or his assignee), whether the indorsement on the checks showed it to be the depositor or the depository bank.

The court pointed out the distinction between an agreement to collect and an agreement to transmit for collection.

Where a bank agrees to transmit for collection even in a jurisdiction following the New York or Federal Rule, it would not be liable for default of correspondents if duly selected. First Nat. Bank v. Fed. Res. Bank of Kansas City, U. S. Cir. Ct. of App., 8th Cir., not yet reported.

NOTE.—The collection of the checks in the above case took place in 1921 prior to the time Regulation J Series 1924 of the Federal Reserve Board was in force. Had these regulations been in force the defendant Federal reserve bank would have been protected by the forwarding bank's warranty, that the collection by draft in lieu of cash was authorized by the depositor, and the forwarding bank would have had to stand the loss. It is quite probable that the plaintiff bank could not in turn place the loss upon its depositor, for the reason that the agreement on the deposit slip does not seem to afford sufficient protection. The courts might hold that the agreement does not authorize payment by draft in lieu of cash, nor does it authorize the selection of an agent which contemplates such method of collection. It is, therefore, safer for the plaintiff bank as well as all banks to adopt the Standard Form of collection agreement set forth in the January, 1925, JOURNAL. This agreement is necessary to protect the bank in cases of negligent collection as well as negligent selection.

Note Given for Patented Article Must Recite Consideration on Its Face, Otherwise Void and No Good Even in Hands of Bona Fide Holder—Arkansas.

PLAINTIFF brought suit on a $1,000 note which he bought in good faith from the payee, a manufacturing concern. Before plaintiff paid for the note he wrote de-

fendant maker, asking him if it would be paid, stating that he did not know the payee and would rely on defendant for payment, whereupon defendant answered "if nothing bad happens, I am for sure that I will be able to pay the note when due or before, which I hope I will."

The note was given for a cotton compress which was never delivered, and defendant refused to pay the note. For defense he set up Sec. 7956 of Ark. Dig. of Stat. (1921), which reads as follows:

Printed form necessary. Any vendor of any patented machine, implement, substance, or instrument of any kind or character whatever, when the said vendor of the same effects the sale of the same to any citizen of this State on a credit, and takes any character of negotiable instrument in payment of the same, the said negotiable instrument shall be executed on a printed form, and show upon its face that it was executed in consideration of a patented machine, implement, substance or instrument, as the case may be, and no person shall be considered an innocent holder of the same, though he may have given value for the same before maturity, and the maker thereof may make defense to the collection of the same in the hands of any holder of said negotiable instrument, and all such notes not showing on their face for what they were given shall be absolutely void.

The note did not show on its face that it was given for a patented article, and the court held that defendant's defense on it was complete, and that he was not liable on the note although it was in the hands of a good faith holder. Nor could the fact that defendant expressed his intention to pay it to plaintiff avail the latter, for the note was itself void, and could not have its defects cured. For "this court is committed to the doctrine that contracts made in violation of law are not converted into valid obligations by subsequent promises to perform them, and that the maker of a void note will not estop himself from, or waive his right to set up, the illegality thereof as a defense thereto."—Williams v. Layes, 271 S. W. 11 (Ark. 425).

NOTE.—Other states have kindred statutes affecting either negotiability or validity of notes given for certain articles, etc. For instance, see: Mississippi, Code (1917) §5171 (Negotiability of insurance premium notes); Montana, Rev. Codes (1921) §§5968-5969, 6143, etc. (capital stock; insurance premiums); Ohio, Gen. Code (1921) §9581 (insurance premiums); Oregon, Laws (1920), §6354 (insurance premiums); South Dakota, 1923, c. 130, p. 115 (corporate stock); Tennessee, 1923, c. 110, p. 425 (patent rights, stock of certain corporations, etc.); Texas, Penal Code, Art. 999zz-999zzzz (patent rights, etc.); Vermont, Gen. Laws (1917) §§1788 (4), 7112 (patent rights).

Certificate Entitling Holder to Negotiable Bonds Sold and About to Be Issued Is Not Itself Negotiable —New York.

DEFENDANTS sold Belgian government coupon bonds, issuing therefor as evidence to the purchasers temporary certificates containing a condition that every taker and holder thereof agreed that the seller might treat the bearer as the absolute owner thereof for all purposes, and that the seller would not be affected by any notice to the contrary.

Three such certificates, each calling for one $1,000 bond, were stolen from a purchaser, and were sold to plaintiff bank for credit on a deposit account, which credit was subsequently withdrawn. Upon discovery of the theft the defendant was notified of the loss, and it refused to issue the bonds to plaintiff holder of the certificates. This suit was brought to compel such issue, on the ground that plaintiff was an innocent purchaser of the certificates which by their terms called for the bonds absolutely. Plaintiff contends that the certificates were themselves negotiable, and that the fact that they made title through a thief did not prejudice them, who were bona fide holders.

The court held the certificates were not negotiable, and that the owner from whom they were stolen could reclaim them as his property wherever he might find them, as he might here reclaim them from plaintiff. For the Negotiable Instruments Act (§1) provided that "an instrument to be negotiable must conform to the following requirements: * * * 2. Must contain an unconditional promise or order to pay a sum certain in money. 3. Must be payable on demand, or at a fixed or determinable future time," and these conditions not being satisfied, the certificates were not negotiable. Nor did the notice that the bonds would be issued to the holder of the certificates create any new right in the holder of the certificates, for this recital was for the benefit of defendant seller of the bonds, and to be availed of or waived at defendant's election. Nor could stipulations to the effect that the instruments were negotiable make them such, for the Negotiable Instruments Act by its terms sets forth the exclusive conditions making an instrument negotiable.—Manhattan Co. v. Morgan, et al, N. Y. Sup. Ct., App. Div., 1st Dept., decided June 12, 1925, not yet reported.

Surrender of Passbook Through Correspondent Bank. Revocation of Authority to Pay by Personal Appearance—Wisconsin.

PLAINTIFF while in Poland surrendered his passbook representing his savings account and liberty bonds with defendant, to a Polish bank to be forwarded for collection. Plaintiff sent a letter with the passbook, stating that he was transmitting therewith the book, and requested that the account and proceeds be remitted to the Polish bank. The above happened in April, and upon plaintiff's return from Poland in July he requested defendant to keep the account in its then status, and to disregard the written order, which had not then come through. Defendant bank disregarded this instruction when the letter and passbook reached them, and forwarded the money, whereupon plaintiff brings this action to recover the amount of his money and bonds. Defendant claims that the surrender of the passbook and the directions for forwarding the money amounted to an assignment, making the account no longer the property of plaintiff.

The court held in favor of plaintiff, on the ground that the direction to forward the money could be revoked by him. That there was no attempt by plaintiff to vest title in the Polish bank so as to defeat his dominion over his account. Therefore, the forwarding to the Polish bank by defendant was an unauthorized payment, for which defendant was liable to plaintiff. Gruszka v. M. S. State Bank, 200 N. W., 680 (Wis. 11-24).

Payee May Be Holder in Due Course—Oregon.

PLAINTIFF bank is suing on a note given by defendants, who were maker and co-makers. The note was given to the bank to make it more secure on advances already made to the maker, who was in financial difficulties.

The bank was payee of the note, being so named therein, and had obtained the instrument directly from the maker. Defendant indorser contends that the payee cannot be a "holder in due course" within the intention of §52 of the Uniform Negotiable Instruments Act, for one can be such a holder only when he obtains it by having it negotiated to him. But this court, after setting forth that such a construction was that placed on the act by the minority rule (Iowa, Kentucky, Missouri, Oklahoma and South Dakota; see Digest of Legal Opinions of Thomas B. Paton [1921] Opinion No. 847) refused to follow this line of reasoning, and held that the payee might be a holder in due course. American Nat. Bank v. Kerley, 220 Pac. 116 (Ore. 11-23).

Mortgage on Crops More Than Year in Advance Void—Washington.

TWO mortgagees were contending for priority on a 1923 apple crop which had been mortgaged to both. One of the mortgages had been given in March, 1922, covering the 1922 and 1923 crops, the other in April, 1923, covering the 1923 crop, and both had been duly recorded. The latter prevailed, for by Wash. Comp. Stat. (1922) §3779, mortgaging of crops for more than one year in advance is forbidden. The contention that prior to the 1923 mortgage the fruit buds and blossoms had developed from the fruit spurs, and the 1923 crop was produced from such buds and blossoms, did not avail the mortgagee who got his mortgage in 1922. Kennewick Supply Co. v. Fry, 233 Pac. 658 (Wash. 3-25).

Bad Check for Past Debt Illegal.—Cal.

Where a check has been drawn, issued, and delivered to the payee with intent to defraud, and there is no money in the bank with which to pay same, and the drawer has knowledge of such want of funds, the crime is complete, even though the person to whom such check is delivered is not thereby disadvantaged, because it was for an existing debt. People v. Williams, 230 Pac. 667 (Cal. 10-24).

The International Institute of Agriculture at Rome

By DR. ARTHUR W. GILBERT
Chairman of American Committee on the International Institute of Agriculture

THE International Institute of Agriculture at Rome offers a world forum for the discussion of policies in their reaction on agriculture quite outside of politics. It helps the producer and the consumer, the distributor and the legislator, to know what is going on. Through the institute there is opportunity for such friendly study and for international cooperation on non-political lines, purely economic and purely beneficial. It takes what might be an advantage to one and makes it available as a benefit to all.

Markets for the great agricultural staples —wheat, cotton, wool, etc.—are world markets, and as prices in these markets are determined primarily by the relation of world demand to the world supply of such products, information as to the production in foreign countries is well nigh as important to the farmers of the United States as is information about production in this country.

The International Institute of Agriculture is the world's clearing house for these agricultural data, a fact-finding body only, leaving to the individual nations the application of these findings to their respective needs. Seventy nations and their dependencies are now treaty members, representing over 96 per cent of the world's total area and 97 per cent of its population.

Why at Rome?

ONE of the first questions asked about the institute is always, "Why is it located at Rome instead of at Washington, London or Paris?" David Lubin of California, whose idea it was, successful merchant and farmer, student of economics, first made his proposal known at an agricultural conference at Budapest in 1896. He went later to Washington and other capitals, seeking in vain some government which would initiate the project. At last the King of Italy, Victor Emmanuel III, realized the importance of the idea and called an international conference at Rome in 1905 to consider the proposal. The treaty drawn up at that time was signed for the United States by the Honorable Henry White, then United States Ambassador to Italy, and ratified by the United States Senate. The municipality of Rome gave land on a commanding hilltop in the Borghese Gardens, and the King of Italy contributed from his private purse the funds to erect the building which serves as its headquarters.

The institute is wholly a governmental organization which functions, in the case of the United States, through the Department of State. Its management is vested in a general assembly, which meets every two years, a permanent committee composed of one delegate from each country, and an international staff of over 100 statisticians, translators, etc. The general assembly, made up of official delegations from the member countries, shapes the policies, votes the budget, represents the adherent states in considering all items on the agenda. The permanent committee, resident in Rome with offices at the institute, is the executive body which sees that the plans of the assembly are carried out by the staff.

The work of the institute is distributed among four sections: Crop Reporting and Statistics; Agricultural Economics; Science and Practice of Agriculture; Agricultural Legislation.

Thus far the crop reporting service has been the most important branch.

Largely as the result of the institute's efforts, governments have come to realize the economic importance of improved systems of crop reporting, and many countries which had no official services of this kind have now established them. These national bureaus periodically forward their data to the statistical bureau of the institute, which assembles, coordinates, summarizes and publishes them.

Follows Planting and Harvest

THROUGHOUT the year and for all countries, the institute follows the sowing, growth and yields of the staples of crops, which, through international trade, are distributed to become the food supply of distant peoples and the raw materials for their textile industries.

The section of agricultural economics offers service in making known methods of agricultural credit, both long and short term, employed in the various countries; of cooperation upon a sound basis for insurance of crops and livestock, for the marketing of farm products and all else within its field which may help the business of farming.

In the application of science to the practice of agriculture we have another section of the institute's work. Plant and animal diseases know no frontiers. It is comparatively useless for one country to adopt protective measures, if adjacent states fail to take similar precautions. The necessity of common action for mutual protection in this international work is obvious.

Agricultural legislation has received a strong impetus due to the great changes in land tenure which have been taking place since the war. The breaking up of large estates in eastern Europe, the shifting of wide areas from surplus-exporting to deficit-producing countries makes accurate records of vital importance for guidance or warning.

The active subject matter with which the institute deals is not remote, is not of merely academic interest, but has a vital everyday challenge to us as citizens of the United States, whether consumers or producers of food, and of the output of our mills.

Information from Rome is coming daily to our farmers. It is not labeled as such, but through the institute the United States Department of Agriculture has telegraphic connection with twenty-six of the most important producing countries. The data are sent from Rome to the naval station at Paris, across to Washington and broadcast from the radio station at Alexandria and also released to the press. The citrus fruit farmer in California, listening in at his home, learns of the cyclone in Sicily which wipes out a large fraction of the world's supply of that commodity in which he is interested; the dairy farmer in Vermont or in northern Minnesota learns of the shipments of butter from Denmark to the New York market, and realizes that he faces a new problem. How shall he meet this competition? What does it cost to produce that pound of butter in Denmark and pay the shipping charges from Copenhagen to New York, compared with his own costs? Can he reduce his cost to the consumer by better methods of production or distribution? What has been the experience of other countries? To all these fundamental questions we find the International Institute of Agriculture ready to assist.

Preliminary to Federal Farm Loan Act

A NOTABLE illustration of the assistance of the institute was the careful survey which it made at the request of the United States delegate in preparation for the United States and American commissions which went to Europe in 1913 to study the methods of cooperation, particularly in relation to agricultural credit. Largely on the basis of that report our Federal Farm Loan Act was framed. Thousands of farmers throughout the United States, who today own their homesteads and are improving them at a low rate of interest and with long term amortization, are indebted to this exhaustive study of the institute of whose existence even they may be ignorant.

The institute functioned throughout the war and is now readjusted to meet new world conditions. Thanks to the International Education Board, funds have been provided to prepare for a World Census of Agriculture, the first ever attempted on a comparable basis, which the institute is to take in 1930; also for increased development in the service of the library. The institute is becoming gradually a training station in agricultural economics.

The Coming A. B. A. Convention

INASMUCH as this year's convention of the American Bankers Association will undoubtedly be very large, the present time is none too early to make hotel reservations and other arrangements.

Atlantic City, where the convention will be held Sept. 28 to Oct. 1, is in many respects an ideal convention city. The auditoriums are easy of access and comfortable; the arrangement of the city makes for a natural turning of all delegates toward the meeting places and, in fact, all conditions are favorable for good attendance at the many meetings which make up the annual gathering. September and October are delightful months in Atlantic City.

This year the sessions of the general convention and the meetings of the divisions will be held on the Steel Pier.

Round trip tickets on the identification certificate plan will be sold at one and one-half fare to delegates and immediate members of their families. Tickets will be good only via the same route in both directions.

Round trip ticketes require validation by ticket agents of terminal lines at Atlantic City on any date to and including final return limit, but passengers must reach the original starting point prior to midnight of the final limit.

Identification certificates wll be forwarded to members of the Association at the proper time. One certificate is to be used by each delegate and immediate members of his family.

If more than one person will attend from a member bank, additional certificates will be required and will be furnished upon application to W. G. Fitzwilson, Secretary of the American Bankers Association, 110 East 42nd Street, New York City.

The passenger associations granting reduced fares and the dates of sale of tickets are as follows:

Chicago and East thereof—From the territories of the Trunk Line Association, the New England Passenger Association, the Central Passenger Association, the Southeastern Passenger Association and the Canadian Passenger Association (eastern lines). The dates of sale of tickets will be September 24 to September 30, inclusive, and the return limit to reach original starting point is not later than midnight of October 7.

West of Chicago—The Trans-Continental Passenger Association and Western Passenger Association from Illinois, Iowa, Kansas, Manitoba (on Great Northern and Northern Pacific Railways only), Minnesota, Missouri, Nebraska, North Michigan, North Dakota, South Dakota and Wisconsin, also from Julesburg, Colo.

The dates of sale September 24 to 30, inclusive, and the return limit to reach original starting point, is not later than midnight of October 7.

From Colorado (except Julesburg), Montana, New Mexico, Utah and Wyoming, the dates of sale are September 23 to 29, inclusive; final return limit, October 8.

From Arizona, British Columbia, California, Idaho, Nevada, Oregon and Washington, the dates of sale are September 22 to 28 inclusive; final return limit, October 9.

From stations in Arizona, British Columbia, California, Nevada, Oregon and Washington, tickets will also be sold via any direct route and return by any other direct route; certain indirect routes will also be authorized from the latter territory at fares slightly higher than those applying via the direct routes. However, it is necessary that the same route be used in both directions east of Chicago, St. Louis, Memphis and New Orleans.

Southwestern Passenger Association — Dates of sale, September 23 to 29, inclusive, with final return limit of October 8 from Oklahoma and Texas. From Arkansas, Kansas, Louisiana and Missouri, dates of sale, September 24 to 30, inclusive, with final return limit of October 7. The reduction will apply from all points in Southwestern Passenger Association territory.

The following Southwestern lines are not parties to the reduced fares announced above: Arkansas and Louisiana Missouri Ry.; Ft. Smith and Western R. R.; Graysonia, Nashville & Ashdown R. R.; Jonesboro, Lake City & Eastern R. R.; Kansas, Oklahoma & Gulf Ry.; Louisiana and Arkansas Ry.; Mississippi River and Bonne Terre Ry.; National Railways of Mexico; St. Louis, El Reno and Western Ry.

In January a list of hotels and rates and a reservation card on which hotels of first, second and third choice were to be indicated, were mailed to all members of the American Bankers Association, but additional copies may be had upon request.

The Membership Quota

DURING the last spring meeting the Membership Committee of the American Bankers Association fixed quotas of new members of the Association to be gained in each state, and to each member of the committee there was assigned territory for his supervision in the campaign.

In the following table there are shown the gains in each of the territories, as the country was divided by the committee, the new members gained in each of the states since April 7 and the percentage of gain made under the direction of the members of the committee:

Supervised by Hal Y. Lemon	Quota	New Members	% Entire Territory
KANSAS	40	2	
OKLAHOMA	11	6	
NEW MEXICO	1	2	
PENNSYLVANIA	36	14	
	88	24	27.2
Supervised by F. J. Belcher, Jr.			
CALIFORNIA	16	14	
NEVADA	0	1	
OREGON	4	1	
ARIZONA	0	1	
WASHINGTON	3	1	
	23	18	78.3
Supervised by C. H. Bender			
MICHIGAN	44	8	
INDIANA	58	2	
OHIO	41	4	
	143	14	9.7
Supervised by C. A. Faircloth			
FLORIDA	3	17	
VIRGINIA	20	0	
NO. CAROLINA	30	1	
MARYLAND	13	0	
	66	18	26.4
Supervised by Geo. H. Gutru			
NEBRASKA	47	4	
SO. DAKOTA	22	2	
IOWA	85	5	
	154	11	7.1
Supervised by Ben Johnson			
LOUISIANA	5	20	
TEXAS	72	14	
ARKANSAS	17	6	
	94	40	42.5
Supervised by J. U. Lademan			
WISCONSIN	42	0	
MINNESOTA	74	15	
NO. DAKOTA	37	4	
	153	19	12.4
Supervised by C. Howard Marfield			
NEW YORK	19	10	
NEW JERSEY	6	9	
CONNECTICUT	4	3	
DELAWARE	1	0	
DIST. COLUMBIA	1	1	
	31	23	74.0
Supervised by J. C. Utterback			
KENTUCKY	32	4	
TENNESSEE	34	7	
W. VIRGINIA	7	3	
	73	14	19.1
Supervised by Clark G. Mitchell			
COLORADO	4	10	
UTAH	1	1	
WYOMING	2	1	
MONTANA	4	2	
IDAHO	2	0	
	13	14	107.0
Supervised by Wirt Wright			
ILLINOIS	72	9	
MISSOURI	63	7	
MISSISSIPPI	8	7	
	143	23	16.0
Supervised by H. Lane Young			
GEORGIA	39	11	
ALABAMA	13	1	
SO. CAROLINA	22	3	
	74	15	20.3
Supervised by F. W. Denio			
MAINE	5	2	
MASSACHUSETTS	14	2	
RHODE ISLAND	1	0	
VERMONT	2	0	
NEW HAMPSHIRE	5	0	
	27	4	14.8

The relative standing of the members of the committee on the results thus far shown are as follows:

1st	Clark G. Mitchell	107.0
2nd	F. J. Belcher, Jr.	78.3
3rd	C. Howard Marfield	74.0
4th	Ben Johnson	42.5
5th	Hal Y. Lemon and Harry J. Haas	27.2
6th	C. A. Faircloth	26.4
7th	H. Lane Young	20.3
8th	J. C. Utterback	19.1
9th	Wirt Wright	16.0
10th	F. W. Denio	14.8
11th	J. U. Lademan	12.4
12th	C. H. Bender	9.7
13th	Geo. H. Gutru	7.1

The Condition of Business

Second Half Year Opens With Business Running at a Fairly Rapid Pace and with the Outlook Encouraging. Conditions Now and a Year Ago. Bond Prices Reach New Tops. General State of Well-Being Reflected by Nearly All Business Statistics.

THE turn of the half year has found business generally running at a fairly high level, and with an encouraging outlook for the second half year. While some lines of production have shown reduced activity in the past few months, the general run of production has held close to normal. Distribution of goods in wholesale and retail channels has been large, as is evident from the very heavy movement of merchandise and miscellaneous freight on the railroads, and the volume of checks drawn against individual bank accounts.

Factory employment has fallen off slightly, accompanying the slackening in industry, but the released workers have been largely absorbed in outdoor occupations, such as farm work, building and road construction, so that, except in certain centers where business is undiversified, there appears to be no large amount of general unemployment. Capital is plentiful and relatively cheap, and evidences continue to develop of gradual improvement in the foreign situation. Added to these factors are the high level of income among urban wage earners and the reasonably satisfactory prospects for the crops. All of these forces strengthen the expectation of reasonably good business for some time to come.

Although current statistical reports show that general business is proceeding at a pace somewhat above normal, many business men continue to express disappointment and dissatisfaction at the results. The basis for this feeling is well set forth in a recent publication of the Cleveland Trust Company.

"Business men have become accustomed during the past ten years to the sharp advances in commodity prices that characterized the war-time activity, the post-war boom and the recovery following the depression of 1921, but which have not accompanied this period of good business. Industrial profits tend to increase during periods of rapidly advancing commodity prices, for the value of the product is enhanced while it is in the process of manufacture. . . . It makes profits easy to earn.

"Commodity prices are now higher than they were a year ago, and the percentage of advance compares favorably with those that were recorded in periods of business recovery before the war. It is only moderate, however, when compared with the price upturns of the periods of good business during the past ten years, and as a result many business men feel that, although the volume of business is satisfactory, profits are difficult to earn."

Seasonal Slow-Down

THE moderate slackening in the pace of general business which occurred in recent months was scarcely more than usually occurs at this season of the year, when the impetus of spring and early summer trade has passed. The industry most affected by this seasonal slow-down was probably the iron and steel industry, reflecting the passing of the peak of demand in automobile manufacturing and building construction. Steel mill operations have declined from an average of about 90 per cent of capacity in the first quarter of the year to somewhat below 70 per cent at the end of June. Yet this was a favorable showing in comparison with last year, when operations dropped to 40 per cent of capacity in July, before the recovery set in.

Other indexes of production and trade are also generally higher than a year ago. Some of these leading indexes on which business observers are most inclined to rely are given in the table below for May, the latest month for which complete figures are available. The indexes, taken from the publications of the Federal Reserve Bank of New York, have been adjusted to allow for usual seasonal variations as well as the customary year-to-year growth. They are stated as percentages of a computed "normal"; that is, they show what business is in comparison with what it might reasonably be expected to be on the basis of past performances.

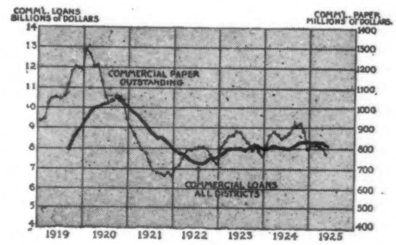
(Computed normal = 100 per cent)

	May 1924	May 1925
Production:		
Pig iron	81	80
Steel ingots	**77**	**99**
Bituminous coal	77	87
Anthracite coal	92	97
Cotton consumption	70	89
Woolen mill activity	84	83
Cement	116	125
Automobiles	**108**	**132**
Business Activity:		
Car loadings, mdse. and misc.	101	106
Car loadings, other	101	108
Bank debits, outside N. Y. City.	101	110
Bank debits, New York City	107	124

It is seen that, while the production indexes are running below normal in some cases, they are almost all higher than a year ago. Distribution of goods, as reflected in car loadings and bank debits, which last year were running about equal to the expected volume, has recently been well above normal.

Recent Financial Tendencies

DESPITE active business this spring, borrowing for commercial purposes at member banks in leading cities failed to show the usual seasonal expansion and, accompanying the moderate recession in business, declined by the middle of June to a new low level for the year. The volume of commercial borrowing in the open market likewise showed little increase during the early part of the year and has recently declined to the lowest for this season since 1922. Loans on securities, on the other hand, have increased and reached a new high mark in June, and this, together with an increase in holdings of investment securities, carried the total of all loans and investments to a new high point. The diagram following, prepared and published by the Reserve Bank of New York, shows the recent changes in commercial loans of all weekly reporting member banks throughout the country and in the volume of commercial paper outstanding through twenty-six dealers.



Commercial loans at lowest level during the year

Conditions in the money market remained relatively steady during the first three weeks of June, notwithstanding the heavy Treasury operations in the middle of the month. Toward the end of the month conditions became firmer, owing largely to preparation by banks and other lenders for mid-year statements and financial disbursements. Commercial paper rates remained generally firm at 4 per cent in New York, but sales continued at 3¾ per cent in the interior. In the bill market, notwithstanding considerable fluctuation in the demand, dealers' rates held unchanged at 3⅜ per cent on their purchases of ninety-day bills and 3¼ per cent on their sales. Rates for call and time loans against stock exchange collateral held unchanged at 3¾-4 per cent until the end of June, when the market became slightly firmer.

One effect of the relative ease in money conditions recently has been seen in the security markets. Representative stock averages, both of industrial and railroad shares, have held not far from the high levels attained at the end of May. In the bond market, corporation issues held steady at the highest levels since 1917. Government bonds advanced under buying stimulated by the small size of the June 15 Treasury offering and growing scarcity of the floating supply of these issues. Liberty Second and Third 4¼ per cent issues reached new high prices for the year, and the First and Fourth 4¼'s and Treasury 4's and 4¼'s sold higher than ever before.

Representative William R. Green of Iowa, chairman of the House of Representatives' Committee on Ways and Means, who will start the promised cut in federal tax on its way in Congress. The work of preparing the new revenue bill has already started

Bonds Going Up

IN a study of the relationship between changes in bond prices and general industrial activity, the Cleveland Trust Company finds that over a long series of years it has been true that after a period of industrial depression, bond prices have advanced with the recovery in general business for about fourteen months after the lowest point in the production of pig iron. If that rule should again hold in the present business cycle, it would indicate that bond prices in general might reach their high points about next September, for that would be fourteen months later than the low point of pig iron production in July, 1924. Whether or not such an outcome will result in the present cycle will be determined to a large degree by the extent to which credit is absorbed and interest rates advanced during the months directly ahead. As bearing on the outlook for money, the market promptly absorbed the June Treasury offering of $125,000,000 one-year 3 per cent certificates. This was the smallest Treasury offering since May, 1920, and while the rate was ¼ of 1 per cent higher than the one-year offering of last September, it was otherwise the lowest rate fixed for a twelve-month loan in the Government's post-war financing. The terms of the successive short-term borrowings of the Treasury have usually gauged correctly the conditions prevailing at the time in the money market and have often foreshadowed the general character of the ensuing season's market.

Foreign Issues Running Larger Than in 1924

THE volume of other classes of new securities sold in this market in June continued large, though dealers complained of scarcity of issues. Foreign issues, including a $50,000,000 Belgian Government issue, large loans for Norway and Argentina, partly for refunding purposes, a $20,000,000 Chilean land bank issue and a number of smaller loans, made up a large part of total offerings, and brought the aggregate of foreign issues sold in this market since the first of the year to over half a billion dollars, or about $150,000,000 more than in the corresponding period of last year.

A feature of the foreign financing this year has been the increased proportion of loans to private corporations and a smaller proportion to foreign governments. The table following gives, in millions of dollars, the totals of all security offerings in this country for the first five months of this year in comparison with the same period of 1924, by classes of security:

	1924	1925
Corporate—		
Long term bonds and notes...	$ 965	$1,292
Short term	132	175
Preferred stocks	110	291
Common stocks	373	171
Canadian	10	88
Other foreign	18	126
Total, corporate	$1,608	$2,143
Foreign government	305	112
Farm loan issues	86	109
Municipal	546	603
Canadian	31	28
U. S. Possessions	6	4
Grand total	$2,582	$2,999

The Crop Outlook

THE June crop estimates for the country by the United States Department of Agriculture generally indicated smaller yields in farm crops than last year. Owing to the abandonment of winter wheat acreage and poor condition of the remaining crop, the outlook for the spring and winter wheat combined was smaller than last year by over 200,000,000 bushels, or nearly 25 per cent, and at 660,000,000 bushels promised to be much the smallest crop since 1917. Smaller yields than last year were also forecast for other leading farm crops, except barley.

Commenting on the forecast for wheat, the Crop Reporting Board stated that the requirements for domestic consumption do not differ greatly from the prospective harvest, indicating that there would be little or no wheat for export from this year's crop. The wheat crop outside the United States, on the other hand, was reported to be as much better than it was a year ago, as the prospect of our own is worse.

The condition of the American cotton crop on May 25 was above the ten-year average, and unofficial reports indicated a somewhat larger acreage than last year. During June, however, prospects became less favorable, due to dry weather in Texas and weevil infestation in some areas. The June forecasts of crop yields this year are compared in the following table with the actual harvests in recent years, the figures being given in millions of bushels.

Crop	Average 1920-1924	1924 Harvest	1925 June Forecast
Winter wheat	592	590	407
Spring wheat	245	283	254
All wheat	837	873	661
Oats	1,328	1,542	1,295
Barley	182	188	205
Rye	70	63	53

While these estimates are the best official ones available at the end of June, they are, of course, subject to considerable revision, as was found to be necessary last year, for example. Although the indicated yields of the farm crops are generally smaller than a year ago, the outlook is better than a year ago from the standpoint of total value of the crops to the producers. Farm prices are generally higher than last year.

With much of the accumulated farm indebtedness cleaned up as a result of last year's crop returns, the farmer's financial position is the strongest in years, and the prospect for this year's returns is fairly satisfactory. That a large volume of goods has already moved into distributive channels in the western districts is shown by the recent freight movement on the railroads. The table below in thousands of cars, shows the cumulative totals of car loadings in the twenty-four weeks from Jan. 1 to June 13 in 1925 and each of the two preceding years. Due chiefly to increased traffic in merchandise, less-than-carload and miscellaneous freight, the totals this year have exceeded those of past years, and while each section of the country has shared in the increase, the gains have been especially marked in the Northwest and Southwest, as well as in the southern districts.

	Thousands of Cars		
	1923	1924	1925
Grain and products	950	1,003	951
Live stock	753	764	714
Coal	4,425	3,823	3,891
Coke	361	272	282
Forest products	1,742	1,796	1,828
Ore	687	574	670
Merchandise, L. C. L.	5.444	5,723	5,965
Miscellaneous	7,617	7.418	8,023
Total	21,979	21,373	22,323

Urban employment is generally full, and average earnings in the factories are close to the highest level since 1920. Sales of life insurance have surpassed all previous records. Savings deposits throughout the country continue to expand, the combined figures for 890 banks showing a gain of 7 per cent over a year ago. Taking the situation all in all, evidence predominates of the existence of a general state of well-being throughout the country.

Sir Youseouf Saddik Pasha, of Egypt, who is another foreign notable to land in New York to study American banking institutions. He expects to introduce some of the advanced ideas in the land of the Nile

Farm Labor

(*Continued from page* 22)

labor is recognized as a drawback. Some progressive farmers in general and diversified farming regions are endeavoring to work out year-round programs for their farms that will make year-round employment profitable. In some truck areas farmers are adding a few cows or poultry to bring labor demands more nearly to a level. Only thus can they hope to secure and hold the better class of laborer. Some wheat farmers plan to begin threshing as soon as possible after harvesting is over in order to hold the same men for the two jobs.

Investigators believe that a more comprehensive machinery should be provided by cooperation of Federal-state employment officials and the state and county agricultural officials for the redistribution of harvest hands, and for helping the men to move on from one harvest job to another. The employment offices at present get the men out quickly to their first harvest jobs, but when the men complete these jobs they are far from the employment offices. Frequently they do not have accurate information concerning the next places that need their services and are forced to depend upon their own judgment or chance information, or go back to the city employment offices to be sent out again. In the wheat belt this usually means a journey of 200 miles and the loss of time and money.

The citizens of each county are active as long as they need labor, but when their own crop is cared for, they naturally settle back with a complacent feeling that all is well and the harvest is over. They do not realize that they have any further responsibility to the men who have worked in their fields. The investigators recommend that some one in each county, generally the county agent or farm bureau, be given definite instructions, guidance and responsibility for forwarding the labor of that county, as soon as set free, to the next area where it is needed. If this were done systematically, they point out, the harvest could be handled with at least a 25 per cent smaller number of laborers and with much better earnings per man for the harvest hands.

A harvest hand cannot come from points farther east than Ohio and earn enough in the harvest to pay him for coming, even though it fits into a seasonal labor scheme, according to the results of this study. In view of the heavy expense for travel to and within the harvest territory and the probable loss of half of their working time while in the harvest area, industrial workers in the East, like factory hands and construction workers, should not be attracted to the harvest by official advertising, in the opinion of the investigators. If they wish to come without solicitation, as some will always do, it is their own affair.

Special harvest excursions by the railroads at reduced round-trip rates, tickets to be good for return within 90 days of date of sale, are recommended. In Canada a harvest hand can go from Quebec to Saskatchewan for the fare that it costs an American harvest hand to go from St. Louis or Chicago to harvest work in Kansas.

By the very nature of their purposes and activities, public employment offices in whatever region are potentially better agents for fitting jobs and workers together than private agencies, the investigators point out. The same public agencies might also act as agents to disseminate practical advice and information as to means of improving working conditions on farms. There is a real need for a network of such farm labor bureaus in the East as well as in the West, which will provide information as to character and location of positions open and the qualifications and locations of men available to fill the positions. The result would be a better fitting of men to jobs, a smaller labor turnover, greater productivity, better wages and larger profits.

Wage scales have been tried in some states and some localities, but have not worked out well as yet, nor do rates at present differentiate sufficiently between competent and incompetent workers. Until more work is done toward fitting the right man in the right job, not much progress can be made in that direction. The development and use of trade tests as a means of determining in advance something of an applicant's fitness for his work seem to the investigators to be of decided advantage for these purposes. These tests would have to be varied to suit practices in different localities and types of agriculture.

Finally, it has been well demonstrated in all of the regions studied that the treatment and quarters that farm laborers are given are quite as potent as wages in attracting and holding a satisfactory and profitable class of labor. Progressive farmers

A part of the Armstrong's Cork Tile floor in the offices of Eastman, Dillon & Company at 120 Broadway, New York. The pattern is 9" x 9" medium and light shades. Harry M. Clawson, New York, is the architect

At 120 Broadway

EASTMAN, DILLON & COMPANY'S offices at 120 Broadway, New York, are floored with 8,000 square feet of Armstrong's Cork Tile.

Even in this black-and-white picture you can see that it is a decidedly handsome and distinctive floor. If you could also see the texture of the cork and the shading of its soft brown tones, you would better appreciate its decorative value.

But appearance is not all. What bankers like most about a floor of Armstrong's Cork Tile is its comfort and quietness. As easy and resilient underfoot as a carpet and almost as silent, it is a floor that promotes efficiency among employees, and imparts to the banking room an appropriate atmosphere of dignity and calm.

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are coming to realize more and more that it pays them in dollars and cents to make a good offer to the right kind of men and to expect and demand a good return.

Service at a Loss

(*Continued from page* 29)

age and minimum balances. The most important return is that either no trouble at all has been experienced in maintaining the service charge, or of an amount so small as to be unimportant.

"An ideal relation between a bank and its depositors is that where each is able to receive both benefit and profit through the association. Keen competition and strife for volume of accounts has resulted in gathering in large numbers of depositors whose business, from the profit and loss standpoint, is undesirable. Just as the successful merchant endeavors to make a profit on all sales and to keep his shelves free of dead stock, so is the banker justified in refusing to carry from 20 to 60 per cent of his inventory in accounts at a loss.

"The same economic rules govern the operation of a bank as apply to the manufacturer or merchant. Its selling price or compensation must be based on the cost of furnishing its services and facilities to its customers. The small checking account, receiving the same service as the large account, but with its frequent overdrafts and the more careful watching it requires, is a highly important part of the overhead expense of any bank.

"In my opinion the banks alone are responsible for this unfortunate condition. We allow accounts to be started with deposits that cannot earn the cost of the opening and maintained at balances that cannot possibly earn their keep. These accounts do not get better of themselves, and unless we make some effort to improve them, they continue on the same losing basis. In most instances these accounts are for household expenses, from persons of moderate salaries or from small business, and are usually far more active in proportion to their size than are the larger accounts.

"It is a mistake to think that the good will of depositors is earned by rendering them service at a loss. In the first place, the depositor has no idea that what he is receiving is anything but just what the bank is for and wants to do, and certainly no great amount of good will can be created in the mind of a depositor who thinks that his account is paying for all or more than he is asking or receiving. Ninety-nine per cent of the depositors are just average fair-minded human beings, not seeking charity and willing to pay a fair price for whatever they receive, whether from their bank or their merchant. Naturally they do not know that their accounts are unprofitable, and our returns show conclusively that when the situation is explained to them, they either build their accounts up to the required balance or willingly pay a service charge. Nothing makes for good will and confidence as surely as frankness and fairness on the part of both the banker and the depositor."

The Future Earning Power of German Industry

By C. E. HERRING
American Commercial Attache, Berlin

Conditions Prevailing Upon the Completion of Gold Recapitalization Requirements. If Industry is to Continue at Its Present Encouraging Level There Must Be a Decided Increase in Exports. Business Conditions Produced by Foreign Credits and Dumping.

THE establishment of gold balances, as required by the German law of Dec. 28, 1923, is now practically completed and, contrary to expectation, the conversion of liquid into fixed capital during the inflation period was not as extensive as many had feared, although the liquid assets of most concerns are far below pre-war. The new gold balance sheets, of course, show wide variations between different lines of business and between concerns in the same branch, largely due to amalgamations and absorptions, different methods of arriving at the new capitalization and other factors to be mentioned later.

In considering the new capitalizations it must always be borne in mind that pronounced conservatism has been shown in their calculation and that in general fixed assets are considerably above the published figures, even when present high replacement costs are not taken into consideration. The law requiring gold balances was loosely framed, doubtless necessarily so. It is scarcely an exaggeration to say that the policy of any board of directors, in respect to future dividends and other considerations, was the determining factor in the new capitalizations, rather than the actual relation of assets to liabilities. The confusion of the paper-mark period was such that inspection of books in connection with taxation, plant appraisal, etc., was bound to be somewhat impressionistic. There were so many variable factors involved that the government could hardly describe a hard-and-fast system of revaluation and enforce it, although the Finance Ministry is now checking up doubtful items and, in some cases, notably land and buildings, is materially increasing the companies' reported assets. It is probable, however, that the "hidden reserves" of German industry, trade and finance will remain a substantial percentage of their declared assets.

An Effort to Revive Confidence

A CHIEF reason for the conservative recapitalization was the immediate or early resumption of reasonable dividends in an effort to revive confidence at home and abroad in German economic rehabilitation and to attract new capital. A second important consideration, of course, was the desire to lighten future taxation when the full burdens under the Dawes plan become operative. There was also the general feeling, particularly strong among the banks, that the uncertainties of the next few years necessitated abnormally high open or hidden reserves, apart from the question of dividends. This point of view is, of course, to some extent a legacy of the inflation period.

A fourth important factor was the genuine difficulty of correctly estimating the real value of participations in other concerns, as to whose earning power during the post-inflation period there is considerable uncertainty. This last is particularly true of the great banks, whose participation in industry has always been a striking feature of German finance. It is also an element of uncertainty for the great industrial concerns, which took advantage of inflation and the subsequent credit crisis of the stabilization period to absorb smaller and probably less efficient competitors. Insofar as inflation profits were used by big business for actual extensions of their manufacturing facilities (as contrasted with upkeep and renewals), there is considerable doubt whether, in the present state of German export and world consumptive power, such increased capacity can be regarded as really productive.

On the other hand, the fixing of too low a gold capital showing large losses, as compared with pre-inflation days, was undesirable from the standpoint of obtaining new capital or commercial credits, since it might be construed as indicating inefficient management. The interests of the stockholders, some of whom, of course, bought their shares at or above the pre-inflation gold par, was another factor operating against too great conservatism and understatement of assets.

Banks at a Disadvantage

ACCORDING to the gold balance figures, industry suffered less from inflation than shipping and other transportation companies and trading concerns, while the banks were the heaviest losers of all. Comparatively early in the inflation period the "flight from the mark" began. The larger manufacturing plants converted their surplus marks into foreign exchange and subsequently invested them in plant renewals and, on a much smaller scale, in extensions. They were also able to acquire on very favorable terms weaker concerns, especially those with no direct inflow of foreign exchange from their own exports and unable to adjust themselves to operate on a gold basis, which for a long time was prohibited in domestic trade. Industry was also able to liquidate its maturing mortgages and outstanding bonds at fractional amounts.

The banks, on the other hand, were unable to invest their rapidly depreciating mark assets to the same extent in either real values or foreign exchange, as they were obliged to retain large reserves of paper marks, which was the only legal tender. Aside from their purchases of foreign values, large amounts of which were necessary to cover foreign commitments, the banks' chief profits from the inflation period were invested in up-to-date office equipment and an enormous enlargement of their building accommodations to house the expanding personnel of their main and branch offices, which shortly before currency stabilization was more than four times as great as in 1913.

It is true that the benefits derived by industry from the virtual cancellation of its debts through currency depreciation will be partly, and in isolated instances perhaps entirely, offset by the Dawes plan levies and the eventual valorization of paper-mark obligations, now tentatively fixed at 15 per cent of their nominal value. On the whole, however, industry (and agriculture still more) profited in this respect at the expense of the entire creditor class, including the banks. The relative prosperity of industry is, of course, largely due to the liberal credit policy of the Reichsbank under its inflation-period management. Borrowers often repaid their paper-mark credits at a fraction of the gold value actually received, although wages and general overhead were largely liquidated on a paper basis, and during the final period of currency depreciation some of the great industrial concerns, particularly in the occupied territories, issued their own emergency currency (*Notgeld*), which was also repaid at a small percentage of its real value. The great extensions of the Stinnes and other large interests were largely due to these depreciation profits rather than to investments of real new capital or normal profits.

Conservatism in Establishing Gold Balances

WHILE the real assets of the banks suffered greater shrinkage than those of industry, there is little doubt that the banks have shown particular conservatism

(*Continued on page* 52)

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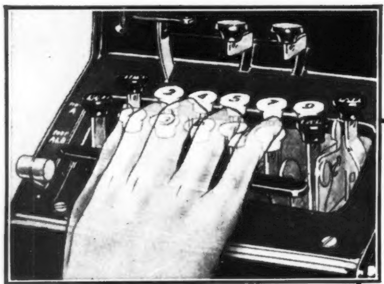

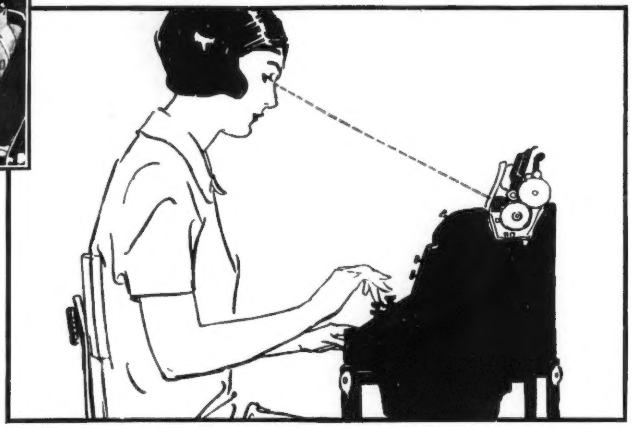

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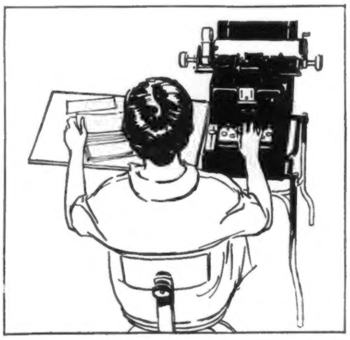

SPEED—With the 10-key scientifically correct "touch method" Dalton keyboard, one hand covers the keys and controls the machine—the other hand is free to turn checks. No constant swinging of head and eyes from data to machine and back again—the operator posts with "eyes on work—fingers on keys." The slightest touch depresses the keys—the fastest fingers can never find the limit of Dalton speed. The machine is 25 to 80 per cent faster than other figuring machines.

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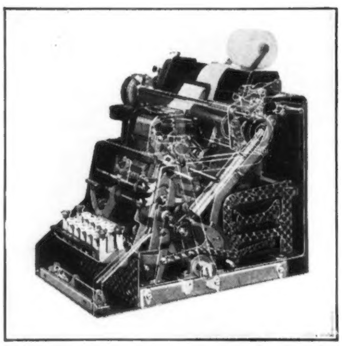

DURABILITY—Many Daltons are still in daily operation after 20 years or more of service. Further, a check kept over this period shows that maintenance cost has been low as compared to that of other makes of figuring equipment. This same durability, this same day-after-day dependability are found also in this new Dalton posting model.

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Future Earning

(*Continued from page* 48)

in establishing their gold balances. This policy was adopted on general principles, and perhaps also because of greater uncertainty as to the appraisal of their participations and doubt as to the future of their over-extended branch-office systems.

It is undoubtedly true not only that the great banks, at least, must remain entirely solvent, but also that they must declare respectable dividends at almost any price, if German economic reconstruction is to proceed. This report cannot enter into the present controversy as to whether the very high bank charges are justified. It should be emphasized, however, that the consciousness of their responsibility for large foreign commitments and for the building up of foreign and domestic confidence in German stability and progress is an important factor in their ultra-conservative revaluations.

As previously stated, mere comparisons of present and pre-war gold capital and surplus are very misleading. Some of the factors making strict comparability impossible are (1) war-time and inflation period absorptions and participations; (2) the even larger "hidden reserves" frequent before the war (i.e., actually greater, although smaller perhaps in relation to declared capital and surplus); (3) the high value on the stock exchange of many shares before the war; and (4) the present low liquid assets, which result in an abnormal demand for credits at very high rates. The 35 per cent rise in the German price level (or putting it differently, the 35 per cent depreciation of gold), must also be considered in all comparisons of present balance sheets.

When comparing the present market value of outstanding stock with that of the pre-war period, it should be noted that some of the companies showing the largest nominal capital increases in their new balance sheets are still well below their former "real" capitalization when expansion, the rise in prices, and the resulting higher relative dividends are taken into consideration. The Badische Anilin (dyes and chemicals), for instance, now has a higher capital and declared reserves than any other company, amounting to 234.7 millions, as compared with 83 million gold marks in 1914. In 1924 it paid a 27 per cent dividend on a capital of 54 million marks, and its shares were quoted on the exchange at 578 per cent, making the "real" capitalization (or the market value of the entire stock outstanding) 312,000,000. The gold balance sheet gives the capital as 177.2 million marks, which, of course, represents absorptions during the war and inflation periods, and actual new capital issues which may have been marketed in the ten-year period to finance such absorptions.

Capital and Productive Capacity

IN view of all these factors, it is evident that large increases in nominal capitalization, which have been particularly striking in the dye industry, do not necessarily represent a corresponding increase in productive capacity for German industry as a whole. Whether or not they indicate it for an individual enterprise depends largely upon the extent to which such a concern has absorbed or acquired a controlling interest in other plants in the same industry.

It is undoubtedly true that there has been considerable expansion of German productive capacity in some lines, notably air-fixed nitrogen (which now practically replaces Chilean nitrates in the home market), pharmaceutical specialties, pig irons, some types of machinery and other metallurgical products as a result of the conversion of great war-munitions plants, like Krupp's, to non-military production. The increase in iron output is, however, a replacement of lost blast furnaces in separated territories and the augmented production of former munitions plants is not all net gain on account of territorial losses. Furthermore, the increased production and sale of machinery, railway rolling stock, etc., by the great companies was at least partially obtained at the expense of smaller German competitors. Capital increases of a number of companies over pre-war, however considerable they may be, do not imply an increase in potential production for the whole of Germany.

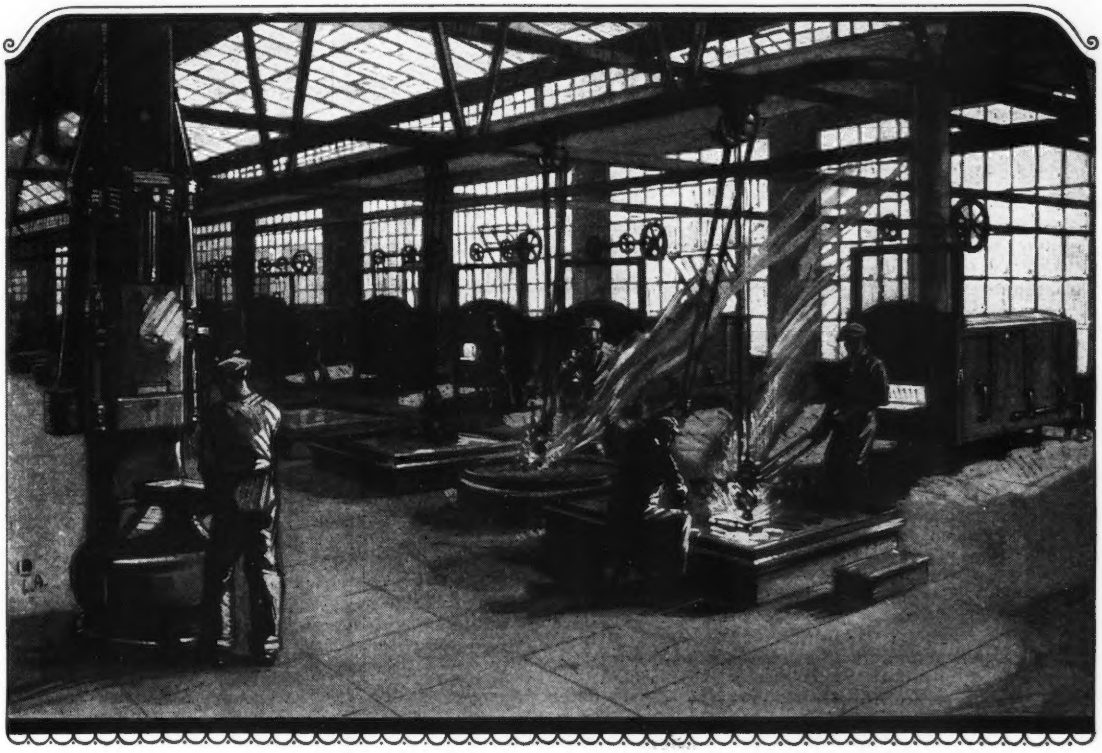
Real and Declared Capital

THE Berliner Boersen *Zeitung*, in a recent study, calculated the "real" value of the paper-mark capital of all the companies listed on the Berlin stock exchange, basing its estimates on pre-war gold capitalization plus appreciation, as indicated by the average pre-war dividends and bourse quotations, plus

ONE OF A SERIES OF ADVERTISEMENTS SPONSORED BY THE AMERICAN GAS ASSOCIATION

The use of city gas for industrial uses is expanding every hour. The estimated sale of manufactured gas in the United States during 1924 was 405,000,000,000 cubic feet

If it is done with heat you can do it better with gas



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A VARNISH manufacturer who is firing his cooking pots with gas, says: "I'm making better varnish than I ever made before with other fuels; and I'm saving 90c on every gallon."

A large Southern steel plant has installed a newly developed furnace which burns gas. The chief says "by using gas we have slashed our production costs $8.10 per ton."

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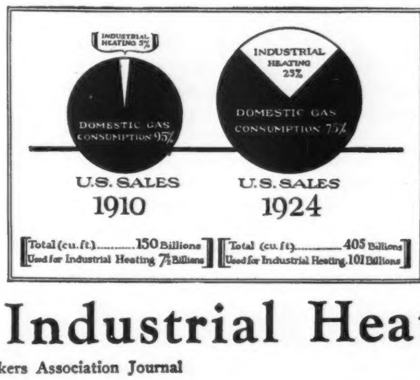
In 1910, manufacturers in the United States used 7½ billion cubic feet of city gas. In 1924, the total consumption of gas for industrial use jumped to 101 billion feet—an increase of 94½ billions. And demand is growing each hour. Gas is used in the steel mills of Bethlehem—and in the smallest industrial kitchen. City gas serves wherever heat is used in industry.



Read the magazine, INDUSTRIAL GAS. It will show you how manufacturers are using city gas. And it will give you some good ideas on heat application. Write for your copy now. American Gas Association, 342 Madison Avenue, New York.

Gas is the ideal fuel for Industrial Heat

again the "real" or gold value of capital increases since 1914. The result was expressed in percentages of the paper-mark capital, which, assuming that no "substance" has been lost through inflation or otherwise, theoretically represent the amounts to which such capital should be reduced by the gold revaluation.

In the majority of cases the gold capital, when declared, was much below these estimates, indicating the loss of "real" capital or substance, or a very conservative recapitalization, or both. The following table, showing a few concerns in various industries, may be taken as typical:

	Gold Revaluation of Paper Mark Capital	
	Theoretical Per Cent	According to Balance Sheet Per Cent
Westeregeln Alkali Werke (chemical)	41.6	15
Carl Lindstroem (gramophones, etc.)	48.8	20
Bergmann Elektriz:taet (electrical goods)	36.35	20
Allgemeine Elektrizitaets-Gesellschaft (electrical goods)	34.3	10
A.G. fuer Anilin (dyes)	31.39	20
Badische Anilin (dyes and chemicals)	32.36	20
Deutsch-Luxemburg (Stinnes heavy industry concern)	86.37	70
Gelsenkirchen (heavy industry)	98.9	70

As regards the shortage of liquid assets, which has caused a degree of credit-seeking at home and abroad probably unparalleled in any great industrial country, it is interesting to examine the pre-war and post-inflation balance sheets of the Allgemeine Elektrizitaets Gesellschaft, an organization of world-wide reputation. It will be noted that the quick assets of this outstanding concern (i.e., cash drafts and balances in banks or with subsidiaries) are now 27 per cent of the total assets, as compared with 55 per cent in 1914. Furthermore, the general credit shortage has made it necessary to give better terms of payment in domestic transactions, if normal sales are to continue, so that the liquidity of the accounts receivable is probably less than before the war.

Capitalization of Large Concerns

SUBJECT to all of the qualifications previously mentioned, the following comparisons of pre-war and present capital and reserves are given. They are taken from a compilation of the Frankfurter *Zeitung* and include all German companies which have revalued their capital and open reserves at not less than 70 million gold marks.

	Capital and Reserves in Millions of Gold Marks	
Company	Pre-war	Present
HEAVY INDUSTRY		
Krupp's	209	200
Phoenix	120	180
Gelsenkirchen	220	168.1
Deutsch-Luxemburg	130	127.5
Rhein. Stahlwerke	58	124
Mannesmann	90	115
Kloeckner	...	108
Harpener	120	102.5
Ilse	21	87.7
Lothringer Bergbau	...	86
Bochumer Verein	50	72
Rhein. Braunkohle	36	70
ELECTRO-TECHNICAL		
A.E.G.	248	172
Siemens Halske	87	168.1
Rhein Westf. Elektrizitaets-Werke	54	156.1
Siemens Schuckert	97	105
Hamburg Elektrizitaets-Werke	24	77
CHEMICAL		
Badische Anilin	83	234.7
Elberfelder	79	195.3
Hoechster	70	195.9
Ruetgers Werke	27	78.2
BANKS		
Deutsche Bank	368	200
Disconto Gesellschaft	395	145
Dresdner Bank	341	100
Darmstaedter & National Bank	325	100
MISCELLANEOUS		
Viag (Vereinigte Industrie A.G.)	..	132
Deutsche Erdoel	41	105
Deutsche Gas Gesellschaft, Berlin	...	100
Hamburg Hochbahn	15	92
Linke-Hoffmann	22	72

The Effect of Dumping

DESPITE the gold revaluation methods, uncertainties as to "hidden reserves," shrinkage of "real" capital during the war and inflation period, extent of participations and absorptions, etc., there are some definite deductions to be made from the gold balances.

Most important, perhaps, is that increased capital does not necessarily imply augmented productive capacity; even if it did, there would be no early prospect of the indicated surplus offering serious competition in international trade. A considerable portion of present German export is due directly to "dumping" abroad at less than domestic prices, which a home market temporarily

supported by foreign credits cannot indefinitely sustain.

The inflation profits of big business were used primarily for the acquisition of smaller plants and for renewals of old and obsolete equipment and otherwise compensating the abnormal deterioration of the war period. The organization of these trusts, with consolidated control of raw materials should undoubtedly tend to cheapen production costs (although thus far they do not seem to have accomplished this result to any marked extent), and increase export competition accordingly. They do not, however, on the whole, represent increased national productivity.

The fact that ability to pay future dividends somewhat commensurate with (but generally lower than) current interest rates was a guiding principle in the fixing of the new gold capital and surplus, indicates the possibility of a reasonable return on their money for post-inflation investors, given a continuance of the present stability and the successful working out of the Dawes plan. It is true that Germany is now experiencing something in the nature of a moderate boom, due largely to foreign loans and credits, which will not necessarily continue in their recent volume, and that this business activity is based entirely too much on domestic demand, with exports showing small tendency to increase.

In the long run there must be greatly expanded export if production is to increase to capacity, or even to continue at its present level. Assuming that this is achieved within the next year or so, the large "hidden reserves" should assist German industry and trade to weather without extreme difficulty the intermittent slump which some bankers and industrialists anticipate.

In the last analysis the future earning power of German industry, banking and trade depends upon circumstances partly beyond German control, which are inherent in the Peace Treaty, and upon non-economic factors which the German people themselves will determine. Until these fundamental psychological and political tendencies are somewhat clarified, to say nothing of the difficult question of future transfers of mark profits or liquidations, the conversion into foreign exchange, American investors and prospective purchasers of German industrial properties should exercise due caution. German business in all its branches has done its best to lay the foundation for future stability and reasonable profits, often at the expense of old shareholders, but foreign political relations, the working out of the Dawes plan, and political developments at home will largely determine whether its efforts are to be rewarded.

The Quest

(*Continued from page* 24)

as a matter of good faith the person, who is induced to save, shall be guaranteed the safety of his savings. It is quite useless to hedge about our savings banks or trustees with elaborate methods of control, designed to safeguard the use they make of trust funds in their possession, if, at the same time, they must of necessity put the funds entrusted to them into securities, stated in dollars whose value is entirely dependent upon the changes in the price level. And obvious as the desirability for this assurance of safety seems to be, it is a painful fact that thus far there is no agreement, even among experts or scientific leaders in any country with regard to the best, or indeed, with reference to any recognized method of attaining it."

Furnishing the Basis

BOUND not to advocate any particular type of plan, the Stable Money Association has as its real object the furnishing of a basis upon which a sound public opinion on price stabilization may be built up. First, it will endeavor to ascertain from economists, bankers and others whether they believe stabilization can be approached in any way and, if so, by what means. The result of this inquiry is expected to show exactly how far there is a definite body of accepted principle of thought relating to the matter—a factor not hitherto known. With this as a starting point, it is planned to turn over to a small research staff for analysis and investigation all proposed plans for stabilization and all measures, whether legislative or administrative, in the principal countries, which are likely to produce a direct bearing on the price level. The results of the inquiry are to be carried to Congress for such use as it may think fit to make of the data.

Dr. Willis believes that the country is on the eve of new and important banking legislation in which proper study should be given to the effect of monetary and banking changes upon prices. He points out that when the Federal Reserve Act was first introduced it put forth as one of its own objects the attainment of a more stable price level, but that this end was later abandoned.

At any event, it is hoped there may come a general or recognized agreement regarding the steps to be taken along the road toward stabilization of prices.

No Longer a Nation

(*Continued from page* 26)

tion not as an isolated, historic fact, but as a stage in the accomplishment of a definite policy. To visualize this progression, the previous seal of Soviet Russia, adopted after the revolution of November, 1917, has been modified and Article 70 of the new Constitution provides for the new insignia which we began to notice in Moscow in the summer of 1923. It consists of a sickle and a hammer mounted on a terrestrial globe on which the two hemispheres are visible with a certain number of the countries depicted in red, the implication being that the redness is to envelop all the others in due time. The whole is surrounded by sheaves of grain bearing the inscription in six languages: "Proletarians of all countries unite." Article 72 provides that the capital city of this World Union shall be the city of Moscow.

What the United States Government is asked, therefore, to recognize, with all the implications and obligations of recognition, is not Russia, but an idea, a new political science, a new theory of government which, because of its unique character and potential universality, is diametrically and militantly opposed to the Constitution of the United States.

I submit that there is no moot question here of alleged propaganda against American institutions by the Third International, by the Communist Party or by certain private individuals, but an open avowal in judicial language by the Soviet government of its firm determination to create a Socialist League of Nations to which all countries and peoples must one day submit, not in theory only, but in fact and practice. The international scope of the programme and the nature of the ultimate goal are the elements which differentiate the present recognition problem from all others which have preceded it. Nor can this aspect be disregarded or lightly dismissed on the ground that it is obviously fantastic, impossible of achievement and probably intended for "domestic consumption" among the more radical Communists inside Russia. In international relations full credence must be accorded to official documents, notably to constitutions which embody the organic law and describe the internal structure of sovereign states.

Assurances are Futile

BUT even if assurance is given, and the promise fulfilled that no such subversive propaganda will be conducted on American territory, there still remain those very practical problems which confronted us in the distribution of huge quantities of relief supplies in Russia, *i.e.*, in conducting an operation which involved all the technicalities and physical apparatus of a great importing and distributing business for, as the Secretary of State has more than once explained to visiting delegations which urged recognition of Soviet Russia, no government can forget or renounce its obligations to its own nationals resident on foreign territory. The fate, and rights, and protection of such nationals are among the first preoccupations of every state department or foreign office. Disclaiming, consequently, any attempt or right to dictate the internal policy of another sovereign state, the American government has correctly pointed out that recognition means intercourse, and business intercourse with Russians on Russian territory must be conducted in accordance with Soviet law. The American merchant or manufacturer, professional man or clergyman who elects Russia as the field of his endeavors must be prepared to receive the same legal status accorded to Russian citizens of his class, as was clearly communicated to me personally by the Soviet government on the cancellation of all special relief agreements last year.

That magnificent outburst of American generosity, the feeding of 11,000,000 starving Russians, under the able direction of Colonel Haskell, terminated in July, 1923. It so happened at that time that I also was in charge of a certain relief program, and our special agreement was also cancelled. The message conveyed to us from the Kremlin said: "You must carry on your business now" (although it was not a business but a charitable enterprise), "under the law of the land, as must every man who comes into Russia. In other words, you must operate under the code." Well, naturally, this drove us, during those days, to study the organic law of the land, the labor code, the penal code and the civil code. The result was that when I finished we just packed up, liquidated our relief operations and left Russia, as did practically every other re-

lief organization. I took the trouble at that time to draw up what seemed to me a list of the civic and juridical disabilities which confront a man in Soviet Russia today.

Human intercourse is not a paper process. It has very practical results. Americans will go into Russia and Russians will come to the United States. We expect and demand that Russians coming here obey our laws. That is reasonable. It is reasonable to expect of the Soviet government that they shall require foreigners to live under their laws. That means, if I am not very much mistaken, these ten civic disabilities:

Ten Civic Disabilities

No foreigner, or national for that matter, can become an enfranchised citizen if his business requires him to have a few men working for him. He is disenfranchised, and becomes a political pariah. The inherent absurdity of this legislation has become apparent even to the most fanatical Bolsheviks and radical "concessions" have been made to the peasants within the last few months. With permission, they may now hire a few men to put in the hay!

If he owned property he finds it confiscated on his return, without the slightest process of law, or thought of compensation.

He finds that he cannot acquire property in fee simple, even if it is necessary for his business. Certain modifications have been made in that respect, in the case of small householders; but I know of some who were invited back by the Soviets to take over their property and repair it, but when that was done and it was put in first-class repair, they were invited to leave again!

In the development of such business enterprises as he may be permitted to undertake, he must admit the state as a partner, who, as we know from the concession laws, will take about fifty per cent of the profits, if, when and as issued, and who retains the right to cancel the business on twenty-four hours' notice if it so pleases a small group of men, practically unknown to the investor. I saw more than one man go out of Russia broken, discouraged, and practically ruined. The list of those who went in under these conditions and came out disillusioned and resentful is long and depressing.

Should a dispute arise in the courts, the word of a non-communist avails practically nothing against the word of a communist. I have heard judges ask a witness, "What party?" "Communist party." "Proceed."

He is obliged under the labor code to agree that his business shall, to all intents and purposes, be controlled by the labor unions. The labor unions work in close cooperation with the government, and all those who have conducted relief operations in Russia know that if we did not have special written agreements, even relief operations would have been practically impossible in view of the demands of the labor unions under the labor code.

Children are considered the property of the state, and the only reason why the Soviet government has not taken all the children and gathered them into orphan asylums is simply because they have not as yet been able to furnish buildings enough to hold them. But the principle of practical state ownership of the child was juridically affirmed in the organ of the Department of Justice on September 15th, 1923. In other words, the whole tendency of modern democracy, which is to enhance and protect the rights of the individual, here receives an absolute veto. The child, in Russia, is considered to be primarily an instrumentality for the aggrandisement of the state. In American jurisprudence and in Christian philosophy the state is bound to protect the interests of the individual, having been created by the collective will of the individual members of Civil Society. That is reversed in Soviet Russia. There the Communist State is the be-all and the end-all of the entire system of jurisprudence, and the individual is important only as a means to an economic end. That is the direct antithesis of our individualistic concept of free democracy.

He shall not provide for his children any education except that provided and prepared by the literary guides of Soviet Russia.

Thirty Day Sentence Might Mean Death

Should he attempt to give his children religious instruction he may be shot. I did not believe in this day and generation to witness in the city of Moscow scenes that might have been staged in the arena under Trajan, or Nero, or Diocletian, or any one of the Caesars. The alleged political activity of certain ecclesiastics is but a revamping of the old device adopted by the pagan persecutors. The Caesars passed a law in the early days of Christianity providing that he who refused to offer incense to the idol was judged to violate the law and, therefore, having broken the law, he could be executed, not in persecution of religion, but in vindication of the law of the Roman State. So too there is a law, in Russia—the only place that I know of in the civilized world with such a law—to the effect that to teach religion to anybody under eighteen years of age is punishable with death! Now, those who have studied the code might say, "You are inaccurate; it does not say that—'with death.' It says 'with a maximum penalty of one year imprisonment.' That is true. But lawyers will appreciate the legal device available to achieve such executions when deemed advisable. Run through the penal code and ruminate over the paragraph, which says that if a court imposes the maximum sentence (which might only be thirty days) then the Central Executive Committee has the power to commute that sentence into shooting. Therefore, a judge may impose a seven days' sentence as a purely correctional and disciplinary penalty, but if it is the maximum, it falls under the other paragraph. And I saw men go to their death, surrounded by Bolshevik bayonets, because they refused to give up teaching the Christian religion. Whatever may be said about political motives, I heard with these ears the chief prosecuting attorney of the Soviet government ask fourteen men, "Will you stop teaching the Christian religion?" May we not feel a just gratification, gentlemen, to know that every one of those men, from the oldest to the youngest, refused, and replied, "I will not, because it is the law of God." And the answer came back, in my hearing, "That divine law which you quote does not exist on Soviet territory. You must choose between the divine law, so called by you, and the Soviet law." They chose. Some of them are rotting there in prison cells at this moment. One in particular they singled out, as their answer to the universal protest of the civilized world, and blew his brains out on Good Friday night, 1923.

A man is also liable to be shot in Soviet Russia if he contributes any help to his own country. I am not speaking of time of war. That would constitute a legitimate punishment for treason. If a person should go to Moscow tomorrow and send back to the United States even a harmless report on the crop, or a report on economic conditions, if it displeases the Central Executive Committee he can be shot for it! Otherwise, what does Article 57 of the penal code mean when it says: "Any support given to those sections of the international

bourgeoisie which do not allow equal rights to the communist system of ownership.....are likewise to be considered counter-revolutionary acts." Any help consequently given to a government which does not recognize the communist system of confiscating private property is a counter-revolutionary act under Article 57 of the criminal code and you can be shot for it. They justify it as "economic espionage." There has developed an extension to that which I am still puzzling over. A man could also be indicted for "unconscious economic espionage." Just what that is I leave to the imagination.

The Power of Life and Death

IN a word, a man living in Soviet Russia today must realize that his life as well as his property is to all intents and purposes at the disposal of the Central Executive Committee, which claims such power under Article I of the Civil Code, from Articles 33 and 57 of the Criminal Code, and in virtue of the "Special Regulations for the Judiciary" proposed by Acting Commissar of Justice Krilenko and accepted by the Central Executive Committee on October 23, 1922. Among these regulations are the following significant words: "If a sentence does not correspond with the spirit of Bolshevik legislation it can always be cancelled." (This means cancelled by the Central Executive Committee.)

This dictatorial power of life and death through party control of the judiciary was later affirmed and formally incorporated in Article 20 and 43 of the new Constitution of December, 1922. And as the Central Executive Committee is bound by Section I of the Constitution, as well as by the general idealology of Bolshevism, to render decisions, not in accordance with the objective merits of a given case, but in sympathy with the social, economic and political purposes of Bolshevism—which need no definition here—I believe it to be a valid conclusion that Soviet jurisprudence under which a national of the United States would have to live in Russia at present is a complete barrier to normal international relations.

Nay more. These rights which Soviet legislation denies to large groups of its own citizens, we hold to be inalienable, flowing from nature itself, consequent on our physiological structure and the capacity of our intellectual faculties for ulterior development, and constituting, as they do, the necessary means for fulfilling our social instincts and achieving both our natural and supernatural destiny. No American legislature, no executive, no administration which has taken oath to support the Constitution and perpetuate the principles of the Declaration of Independence can consider them as falling within the zone of negotiable issues. We inherit them, as does the Russian people, with our common human nature. Sovereignty ultimately resides in the people as a whole, and it is the sovereign people which designates a given government to exercise a limited and delegated power. It is contrary to all right reason, contrary to nature, as well as to the fundamental concept of government, that the instrumentality created by the people should in turn attack the inherent rights of the people and thus nullify the very purpose of its creation. It was in defense of these rights that our own Declaration of Independence was written and vindicated. In the cause of clearer definition the bill of rights was included in the Constitution.

Can Not Dismiss These Two Things

I HAVE proposed these disabilities, not in criticism of the internal government of Russian. A nation may set up on its own territory any form of government and administer its domestic affairs as it sees fit and we would have no right to dictate to them. But please remember two things; The Soviet government, according to its Constitution and the pronouncements of its responsible spokesmen, intends to extend that system to the United States. I know that it is a grotesque idea, but when it is embodied in the organic law of the land, you cannot dismiss it. Secondly, following recognition, Americans going into Russia would have to live under those conditions and submit to the extravagant whims of the Communist dictator.

We have seen thus far some of the disabilities weighing on the American citizen resident on Soviet territory. Let us consider for a moment the legal status of the Russian citizen who emigrates to the United States and begins life under American institutions. If I interpret the genius of our laws aright, he falls heir to a rich heritage of human liberties, a legacy sealed and consecrated by torrents of patriotic blood that flowed freely in their defense from Bunker Hill to Chateau Thierry and

St. Mihiel. He may in due time acquire citizenship with its rights and protections; he may acquire property which will not be confiscated without due process and just compensation; his person is protected by habeas corpus; in courts of justice full credence is given to his testimony, irrespective of party affiliations; he may conduct his business without undue interference from the state; his family life and his children are sacredly respected by a government which reverences the natural law and acknowledges the inherent right of parents to educate their children. The clear conceptions and the unequivocal expression of the limitations of government enunciated in the Declaration of Independence and our Federal Constitution are but other ways of affirming that before the state made us citizens God made us men! To protect that manhood and secure its inherent rights governments are instituted among men, men are not instituted by governments, and these inherent rights can not be "extinguished" by any fiat of civil society. Finally, the Russian immigrant, in common with all law-abiding citizens of the land, is accorded full religious liberty, with its necessary corollaries, freedom of speech, of the press and of assembly and petition.

And all this, while his competitor, the American merchant in Russia, is bound hand and foot by a network of discriminatory legislation!

With malice, therefore, towards none, with charity for all men, and with a great desire to assist in binding up the wounds of the Russian people, I still feel—and I believe that such is the mature judgment of a large body of American citizens whose patriotism I defy any man to challenge—that no *rapprochement* is possible until the Soviet government of its own initiative introduces such reasonable modifications into its customary procedure as will enable American statesmanship to respond to invitations for recognition while remaining true to its sworn domestic obligations, as well as to its known and demonstrated sentiments of friendship for the Russian people. There is no question of our withholding recognition from the Russian people. States do not recognize peoples; they recognize governments. Our recognition of the Russian people during their mortal agony, when nature sickened and every gale brought death, is written deep, ineffaceably deep, in their hearts, and must ever remain one of the brightest pages in the history of our international relations.

On November 7, 1922, I heard Leon Trotzky address an army of over 100,000 Red soldiers in Red Square before the Kremlin. Colonel Haskell will remember that he was standing not far away on the same reviewing stand. Infantry, cavalry, machine guns, tanks, airplanes, all the pomp and appurtenance of war was there. As these well-fed and warmly clothed legionaires swept past the reviewing stand answering the salute of their commander-in-chief with the thundering strains of the "Internationale," the hymn of the revolution, I could not refrain from picturing another scene, another review, taking place out on the desolate, freezing steppes beyond, from which I had just returned after organizing feeding stations for 160,000 starving Russians whom the Catholic Relief

Mission had undertaken to save from starvation. There death had drawn up his cohorts, with gaunt famine in the van, supported by cruel, bitter cold and flanked by typhus, typhoid and Asiatic cholera.

When Trotsky finished his speech, various Communist delegates from other parts of the world arose and prophesied the coming revolution and the erection of a Bolshevik state in their respective countries. There were American communists in Moscow those days, too, bringing the same message, speaking with, what they maintained, was the "voice of America."

At that moment, and all through the preceding and succeeding winter, out on the snow-swept steppes and on the banks of the frozen Volga, a thin line of 200 Americans were battling knee-deep in snow and ice to snatch 11,000,000 Russians from the jaws of death. It was my privilege and an honor, the memory of which I shall forever treasure, to have been permitted to work shoulder to shoulder with this devoted band, the members of Mr. Hoover's American Relief Administration, as they grappled with famine. For twenty months I shared their hardships in many corners of Russia and stood by their own bedsides when, falling under the load, enough to weigh a giant down, they struggled for their own lives against typhus, typhoid and pneumonia. I think I may, consequently, without presumption, claim to know something of the voice of America to the Russian people. And it is not the voice of the agitator counselling class-hatred, bitter fratricidal strife and bloody revolution, but the voice that spoke for nearly two years to the starving peasants of the Volga whispering of food from over the sea, interjecting words of hope and friendship and encouragement—the voice of mercy and true international service. And I make bold to hope that the same generous, helpful service may again be offered for the economic rehabilitation of Russia, but it must be a service based on mutual trust and cooperation under law, for where laws end, chaos and tyranny begin.

Moderate Earnings

(*Continued from page* 4)

discounts. In actual operations the figures of all member banks show that the average security investments roughly were less than one-third, while the loans and discounts amounted to slightly more than two-thirds of the earning investments. With an average capital investment of $4,491,663,000, the average loans and discounts amounted to $19,498,525,000, while the average security investments were $8,163,266,000.

Unhappily, it is not possible to present authentic and complete figures showing the actual net earnings of chartered American banks as a whole. Some of the states do not consolidate the statistics showing the earnings and expenses of the banks chartered by them. The total capital investment of all banks in the United States, as compiled by the Comptroller of Currency as of last June 30, was $7,053,292,000. If the banks outside the system earned the same average profit on their invested capital as did the member banks, it may be estimated that the American banks during 1924 enjoyed a profit of from $528,996,000, at a 7.5 per cent rate, to $567,084,676, at a return of 8.04 per cent.

It is more likely, however, that the annual return was nearer $500,000,000 because the largest banks in the United States, which are reputed to make the highest average return on their invested capital, are members of the Reserve System.

Banks Lose Alien Property

A FURTHER encroachment of the Federal agencies into the field served by private institutions grows out of the action of Frederick C. Hicks, the newly appointed Alien Property Custodian, in withdrawing 23,000 separate trusts, now being handled by banks and trust companies throughout the country, and turning them over to the Federal Reserve banks.

There will be a centralization of the administration of trust assets, the new custodian announces. The trusts will be concentrated in the Federal Reserve banks, which will act in this capacity as fiscal agents of the government. All the funds of a dormant nature will be invested in Federal securities and the incomes collected directly by the Custodian will be deposited in the United States Treasury.

Banks and trust companies throughout the United States have been administering these trusts for the benefit of the German owners, for whom the Custodian is trustee. Alien property valued at $276,000,000 is still in his possession.

THE United States Treasury paid an average rate of 4.446 per cent on $2,307,041,400 of the public debt maturing during the past fiscal year. It floated new issues in the aggregate par amount of $1,882,167,000 at an average rate of just 3.557 per cent, thus reducing the annual interest charge on the debt more than $16,000,000.

Wonder in Rule

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forms of value. Thus the exigencies of war and post-war conditions in Europe have been impelling the nations of that continent along the path of inflation and forcing them to the abandonment of the gold standard, with the result that they have brought upon themselves the many evils which have always characterized any debasement of the money system.

Great Britain, Holland, South Africa, Australia and New Zealand recently returned to the gold basis.

For the time being the gold standard is still held in partial abeyence, but it is significant that at the present all of the countries suffering frcm this debasement of currencies are engaged in active efforts to restore the standard at the earliest date possible. Germany has furnished an example of the utter chaos which is brought about by excessive inflation. Impoverished by the war and confronted by the necessity of meeting reparations, as well as assuming the heavy charges imposed on the nation in order to restore its economic life, Germany set her printing presses at work printing paper money until inflation of the currency reached the most fantastic proportions. When at last the highest point of issue was reached the value of the paper mark was measured at only one billionth part of the gold mark and it had become glaringly evident that any further continuance of the process meant financial suicide for the state.

Other countries that have passed through a similar experience of inflation and its dire consequences are Poland, Austria and Russia, and in all of them a degree of stability of currency has now been reached.

Sweden is one of the European countries which has shown much skill in the management of its money system and has been the first nation there to restore its gold standard completely after the period of war difficulties.

Not Weakened But Strengthened

THE question has been raised as to whether the theory of the paramount advantages of the gold standard has not been weakened by the widespread temporary abandonment of this standard during the war and post-war period. It would seem, however, from the record of the efforts to restore it that the conclusion is inevitable that the desirability of that standard as a solid basis for currency is more generally recognized than ever before, and that instead of being weakened as the best basis for a monetary system it has been very materially strengthened by the striking financial history of many countries during recent years. One by one the nations which have been shaken from their adherence to the gold standard are striving earnestly to return to it once more.

It may be frankly admitted that gold is not ideally perfect as a basis for currencies, but the search for any better product or device for this purpose has thus far been unsuccessful. It is impossible apparently to escape a certain variability in the value of gold itself and for this reason it cannot be

termed absolute as a standard of measure. There has been seen at times a marked reduction in the values of the precious metals. Thus, the discovery of rich mines in America in the sixteenth century reduced the value of gold and silver to about one-third of what they had been before. A change in the value of the standard is of importance mainly to those who have entered into time contracts.

The apparent unfairness of a payment in a money unit which has either appreciated or depreciated has been the subject of much discussion by economists and has led to proposals that payments should be adjusted in accordance with an index of prices of selected and weighted commodities. The many complications which such a system would involve in connection with accounting and other elements of the situation will probably preclude its adoption.

The theory of the exclusive gold standard rests on the principle that one metal is a better basis for measuring values than two, since the fluctuations that occur by the substitution of one metal for another are certain to be disturbing. As indicated in the foregoing, there is the further difficulty that no ratio can be permanently fixed between the two metals, as their values must vary with the alteration in production. The inherent simplicity of the single standard is best realized by embodying it in gold, which is universally desired, of high cost yet found in sufficient amount to discharge the money work of the standard. History absolutely confirms this theory, as the appreciation of the people for gold as money has been gaining from century to century. In fact, most of the objections to the single gold standard rest on ideas which are the support of other economic fallacies.

Absorbs Production

IN modern times in the case of gold the growth of industry and trade and the consequent demand for this means of exchange have been such that the entire production of gold throughout the world has been absorbed into monetary systems and in the arts without creating very material fluctuations in its value. In the case of silver, however, too abundant production constantly threatens its depreciation, and it is only by making it exchangeable for gold in limited quantities that its money value has been sustained. During the late war, however, special conditions notably enhanced the price of silver for the time being.

The present stock of the world's gold is estimated at about ten billions of dollars in value, and there is now accumulated in the United States almost one-half of the entire store of the precious metal. This is obviously an unfortunate situation as it weakens the monetary systems of those countries which have lost their gold to us and further creates a tendency to undue inflation of credit and industry in America. It is likely, however, that we shall see much of this gold gradually flow back to the countries where it is needed to restore sound financial conditions.

Under modern systems of banking gold in reserves of the banks makes possible the existence of a manifold volume of circulating medium, or currency, and there results an economy in the use of gold through the employment of credit substitutes; about 95 per cent of the business of the world is now transacted through the use of credit media rather than money. It thus follows that existing stocks of gold will probably long be adequate for the needs of society, and there will not be likely such a scarcity of the precious metal as would raise its value substantially in relation to other products. There are those who claim that the value of gold does remain fixed, and that it is only the values of other products which vary. This does not seem tenable, as history has shown that in the last analysis gold must be regarded as a commodity like any other and, like them, subject to the general law of fluctuation in value in accordance with supply and demand. Its relative stability and hence its great value to society as a standard is due to the fact that there exists a fair balance at present between the world supply and the universal demand for gold as money and also the far lesser demand for it for use in the various arts. It seems unlikely now that there remain any important sources of this precious metal undiscovered in the world. The present production can be readily estimated, and it is such as to preclude any very violent fluctuations in supply. The time may come when society will be able to devise for itself some other standard of value which will be free from the defects of the gold standard. Thus far, however, the wit of learned men has failed to indicate such a standard, and it seems safe to predict that gold will

remain in its present preëminent position as the best available measure of value for a long period in the future.

The fundamental weakness of bimetallism is that it depends on the maintenance of an approximately fixed relation between the values of the two metals. If one metal appreciates in value more rapidly than the other, or depreciates less rapidly, it will cease to circulate and a portion of it will be withdrawn for other than monetary uses. This in itself will tend to lower its value and thus to restore the legal ratio. But over long periods of time independent influences will probably affect the two metals so diversely that their values will swing out of all relation to the legal ratio, and the bimetallic standard will naturally give way to a monometallic standard of the overvalued metal.

Proposals to Change the Standard

MOST of the recent proposals for changing the standard have advocated some sort of "tabular" standard previously referred to—a standard of commodities as a whole rather than a standard of one commodity, gold. The theoretical basis of such a plan is excellent, since the value of commodities as a whole obviously cannot change. Equally obvious, however, are the administrative complexities involved.

An effort to overcome these difficulties has been made by Professor Irving Fisher in his "compensated dollar" scheme. In this plan the currency units still represents gold, but the amount of gold represented varies with changes in the price level—that is, with changes in the value of gold. If the value of gold rises, the theoretical metallic content of the monetary unit declines and vice versa, so that the purchasing power of a unit of currency, in terms of all commodities, tends to remain constant.

It is necessary to distinguish between "depreciation" and "inflation." Inflation always involves depreciation, but depreciation does not necessarily represent inflation. The currency of the Southern Confederacy, for example, depreciated and went out of use not primarily because it was issued in excessive quantities, but because its legal sanction was destroyed.

Nor does depreciation necessarily involve the abandonment of the existing standard. A redeemable currency may depreciate very seriously in value. This necessarily assumes a depreciation in the value of the standard metal; but such depreciation may be due to other factors entirely than the quantity of the metal. An increase in the amount of paper currency, an increase in the volume of bank deposits, an increase in the velocity of circulation of either or both of these forms of currency—any one of these may result in depreciation, even with redeemability unimpaired.

On the other hand, irredeemable paper money may circulate for an indefinite period without depreciating. In order that it be able to do so, however, it is absolutely essential that its quantity be strictly limited, and that popular confidence in the stability of the legal sanction be maintained. Its danger lies in the fact that it is much easier to defray public expenses by printing money than by collecting taxes. For this reason inconvertible paper currencies have never maintained their value over a long period. Inconvertibility almost invariably ends in inflation.

Change of Function

IN consequence of the increasing complexity of modern economic life, gold has practically lost its former function of medium of exchange and has remained only as a standard of value. This change is due to the fact that, solely as media of exchange, other things are more satisfactory. The almost universal use of paper currency, checks, etc., has immensely aided—has, in fact, made possible—the development of the world's economic activity to its present proportions. It is by no means certain, however, that it has not increased the fluctuations in the value of gold and thereby impaired its main usefulness as a standard of value. The introduction of each new form of "representative" media of exchange increases the possible sources of instability.

The changes in the value of gold over long periods have been very marked. Between 1789 and 1809 both gold and silver were produced in large quantities, and prices rose rapidly—that is, the value of the metals declined. From 1809 to 1849 the trend of prices was downward. During this time the production of the precious metals was relatively small, and their quantity failed to keep pace with the volume of business, which was increasing very rapidly. From 1849 to 1873 prices rose in response to the gold inflation following the discoveries in California in 1849 and in Australia in 1851 and 1852. During this period banking was expanding rapidly, and the increased use of paper money had the same effect as an increase in the quantity of metallic currency. Between 1873 and 1896 the value of gold rose. Its production was not so large, and the demand for it was increased by the adoption of the gold standard in many countries.

From 1896 to the outbreak of the war the trend was reversed, and the value of gold declined. General prices in that pe-

riod rose about 50 per cent in the United States, 35 per cent in England, 65 per cent in Germany and 45 per cent in Canada.

In recent years the movement of prices means nothing with respect to the value of gold in those countries where the gold standard has been abandoned. In the United States the price level has fluctuated violently in the last ten years. From 1913 to 1920 it rose nearly 150 per cent, and is now almost 60 per cent higher than a decade ago.

In the case of the United States these fluctuations have represented actual changes in the value of gold. One of the strongest influences tending to depress this value has been the slackening of demand for gold for monetary uses, resulting from the abandonment of the gold standard by most of the former belligerents.

Value of Gold Responds to—

The value of gold, then, responds to:

Actual changes in the supply of gold;

Changes in the volume of paper money, bank deposits and other forms of currency;

Changes in the velocity of circulation of all forms of currency;

Changes in the demand for money, due to fluctuations in the volume of trade;

Changes in the demand for gold for other than monetary uses.

The wonder, therefore, is not that gold serves inadequately as a standard, but that any commodity can be so nearly satisfactory in this capacity as is gold. There is no other metal capable of supplanting it. And the use of a tabular standard in any form could only be successful after a long process of popular education. The obvious imperfections of such a standard, however insignificant in comparison with gold's glaring defects, would make it unacceptable in any measurable future.

Before Great Britain made the momentous announcement of her return to gold, Reginald McKenna, formerly Chancellor of the Exchequer in the coalition British government and now chairman of one of the largest banks in Great Britain, made a statement discussing the then possible return of his country to the gold standard, particularly emphasizing its moral effect. "That," he said, "was one of its grandest advantages.

"The nation will think better of itself, will almost regard itself as more honest," he continued, "if its currency is convertible into gold. Fear of being forced off the gold standard acts as a salutary check on extravagance of governments which might be willing to face mere fluctuations in exchange, but would not dare to suspend specie payment. It is really an advantage to a nation to have a currency founded upon a value which is universally recognized. It inspires confidence and facilitates international transactions.

"Even if the gold standard were not preferable for other reasons, its universality would be decisive in its favor. So long as nine people out of ten in every country think the gold standard the best, it is the best. If in the future there were an immense increase or decrease in the output of gold, and consequently a startling rise or fall in prices, reconsideration of the subject might be forced upon public attention, but at present there is no single nation, so far as I know, which is now off the gold standard that does not regard a return to it as the most desirable of all financial measures."

We are thus inevitably forced to the conclusion that on the whole gold has served its purpose well both as a medium of exchange and as a measure of value. Its gradual disappearance from actual circulation has not lessened public confidence in its importance as the basis for currency issue, and no form of fiat currency or commodity-secured paper has equalled it in public approval. That its use is not attended with uniform accuracy or equity does not alter the fact that it provides the best monetary system so far devised, and in both its financial and social aspects it has more than justified its adoption.

Gold has stood in the mind of man as the symbol of value, the token of riches, since the earliest days of recorded history. The Hebrew prophet measured the worth of character as "more to be desired than gold." Jason sought "the golden fleece," and ancient legend placed a pot of gold at the end of the rainbow. Christian teaching is summed up in "The Golden Rule" and storied El Dorados of golden treasure have been the constant lure of the adventurous spirits of the world. Psychologically that to which men generally ascribe value *has* value, and gold has persisted as a word symbol of worth in human consciousness through all the shifts and changes in human society, both because of its inherent qualities as a natural product and because of the general mental attitude which is traditionally held toward it.

Leslie Stephens in his essay on "English Thought" comments "Unluckily or luckily, it is as hard to create a new symbol as to obtain currency for a new word."

So the economists and bankers of today are pretty generally agreed that this long accepted symbol cannot be safely or successfully disturbed.

The Straining

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troduced or controlled by the depositor and the profit on business carried in our branch offices. On the other side of the ledger we scrutinize carefully such items as the expense of work done at a loss in other departments, expense of printing checks, or work done at a loss in any of our branches.

When an otherwise desirable account is showing our bank a loss, we generally try to place the account on a profitable basis by one of the following means—by requesting the depositor to increase his average balance, or if this plan is not feasible, to decrease the activity in the account. In many instances a lessening of the activity in an account is not possible because most business men draw checks and deposit items as their own business activity dictates. In instances of this kind, our final resort is to suggest a reduction or discontinuance of interest, and generally speaking this plan is acceptable when the others are not considered practicable. Our borrowing accounts are analyzed every month and ordinary balances at least twice a year and contrary to the popular opinion that the work is conducted by a corps of high priced experts, it is really accomplished by a comparatively small group of employees who have been specially trained for the work.

In Other Divisions of the Bank

I HAVE been asked if cost accounting can be applied to the other major divisions of a modern bank. It can, but the methods employed should be modified to fit the circumstances. In our general banking department we pay our customers for the use of their funds—we pay them annually, as I have pointed out, twice the amount we pay to our stockholders, so that you can readily appreciate how necessary it is to definitely determine how much we can afford to pay on each average balance. The conditions are different in the other departments, where our profits are the difference between the fees we ask for our services and the amount we are willing to spend on department operating expense. I will take as an example our trust department, and since we have gone back twenty-five years to indicate the evolution of methods in our general banking business, let us apply approximately the same measure of time to our trust department problems.

Corporate trusts 25 or 30 years ago were handled by the few trust companies then existing and they received very substantial fees for their services. Personal trust business was also very profitable. The estates, though few, were large, the cost of handling the business low and the statutory fees afforded ample compensation.

But in 1895 there were only approximately 228 trust companies in the country and five years later this number had more than doubled. Twenty-five years later the total number of trust companies had increased to over 2500. This remarkable increase meant a more or less acute scramble for trust business. New companies were organizing trust departments hurriedly and soliciting both corporate and personal business without realizing either the cost of doing business or the responsibilities involved.

The income tax laws were playing their part also in increasing trust department overhead, adding heavy burdens which could not be dispensed with because of the intimate relationship of tax laws with the handling of both individual and corporate trusts.

Heavy trust department overhead was aggravated in many institutions because these trust services were being used as a bait to attract new business for the banking department, the business being handled at totally inadequate fees. I know that a cost analysis in two of the largest New York city trust companies disclosed the fact that their personal trust departments and their registry and transfer departments were running at substantial losses.

It was the introduction of cost accounting methods in the trust departments of some of the large New York trust companies which first checked the growth of this unsound practice and led subsequently to the gradual development of a standard scale of fees—a scale offering adequate compensation for the responsibilities assumed and the work involved, yet moderate enough to allow the trust companies to continue to attract new business.

A great deal of the confusion regarding rates was cleared up in the personal trust field two years ago by the adoption of a revised statute increasing the fees allowed to executors and trustees.

In the corporate trust field, too, the Corporate Fiduciaries Association of New York city adopted a set of fees for corporate trusts, agencies, etc., which it recommended

to its members and most of the trust companies and banks doing a fiduciary business in New York city have drawn up schedules of fees similar and in many cases identical to those recommended.

Business Refused

I HAVE come in contact personally with a number of cases where large business, which would have been sought twenty years ago at any price, has been refused because, in the judgment of the trust company concerned, the scale of fees on which the business was offered would result in a loss to the company.

The trust companies in New York State are making a determined stand to maintain a reasonable scale of fees. Fiduciary associations throughout the country have taken action along similar lines and it seems to me that some reasonable regulation or standardization of trust rates is most desirable in all localities, because of the nature of the business and the protection it would afford both customer and trustee.

We have still another cost accounting problem in our bond department where the changes in the methods of doing business are as far reaching as in the general banking and trust divisions.

A quarter of a century ago the market for securities was confined to a small group of savings banks, life insurance companies, trustees and a few wealthy individuals. All of these investors knew security values and could be sold readily through a small newspaper announcement or circular letter.

There has occurred since a tremendous broadening of the investment markets due to the efforts of the banks and investment dealers to create a better knowledge of investments, preach the wisdom of part ownership in successful corporations and develop in the average citizen a clearer understanding of how to lay the foundation of financial independence.

The banks have spent considerable money in conducting this educational work and they will continue to do so, but it would be a serious mistake to attempt to apply to our bond business the same accounting methods used in our banking department and we have not recourse to the rate regulating associations which are smoothing our way in the trust division. For instance, our bond salesmen's salaries and commissions are carefully related to the gross profits earned, but in the case of other activities of the department we make no attempt to determine the profit per unit. We are glad to have our statistical department study the investment lists of prospective customers merely to render a service which we hope will establish valuable good will. We do not take these figures too seriously or attach undue importance to them. We use them merely to observe trends in expenses.

Again, we spend considerable time in our bond department making investigations of proposed financing projects, of which a large proportion usually do not materialize. This also is work which cannot possibly be reduced to a unit basis; and even if it could be done, it would be futile to do it. The bond department illustrates therefore the case where it is a mistake to attempt to break up the total profit and loss into small units.

My observation has been that the average bank customer rarely objects to compliance with any reasonable request made by his bank. The average substantial business or professional man believes that he owes it to his bank as well as to himself to maintain a good business reputation. He expects his bank to uphold a high standard and knows that it is an asset to him to bank with an institution that does so. A depositor of this type rarely wants to be carried along by others, he wants to hold up his end, and realizes that the maintenance of a fair balance and the acceptance of a commensurate interest rate is his way of showing appreciation for good banking service.